

BONNEVILLE AND NORTHWEST ENERGY

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104
EARING

Bonneville and Northwest Energy, Se...

SUBCOMMITTEE ON WATER
AND POWER RESOURCES
OF THE
COMMITTEE ON RESOURCES
HOUSE OF REPRESENTATIVES
ONE HUNDRED FOURTH CONGRESS
SECOND SESSION
ON

**BONNEVILLE POWER ADMINISTRATION OPERATIONS
AND THE STATUS OF THE COMPREHENSIVE REVIEW
OF THE NORTHWEST ENERGY SYSTEM**

MAY 21, 1996—WASHINGTON, DC

Serial No. 104-73

Printed for the use of the Committee on Resources

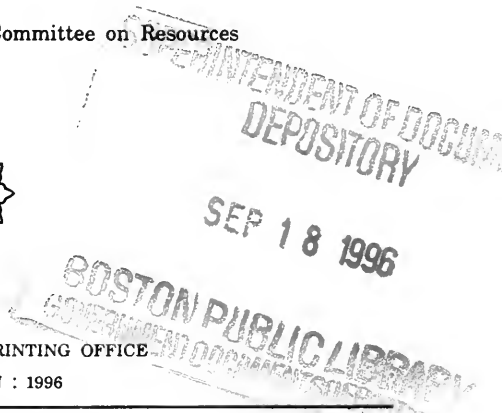


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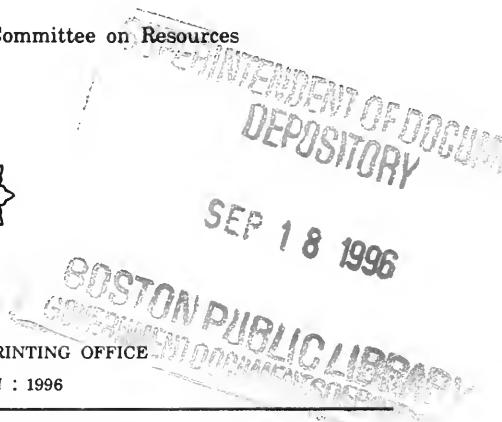
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BONNEVILLE POWER ADMINISTRATION OPERATIONS AND THE NORTHWEST ENERGY SYSTEM

TUESDAY, MAY 21, 1996

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON WATER
AND POWER RESOURCES, COMMITTEE ON RESOURCES,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:09 a.m. in room 1334, Longworth House Office Building, Hon. John Doolittle (Chairman of the Subcommittee) presiding.

STATEMENT OF HON. JOHN T. DOOLITTLE, A U.S. REPRESENTATIVE FROM CALIFORNIA; AND CHAIRMAN, SUBCOMMITTEE ON WATER AND POWER RESOURCES

Mr. DOOLITTLE. The Subcommittee on Water and Power Resources will come to order. The Subcommittee is meeting today to hold an oversight hearing on the Bonneville Power Administration operations and the status of the comprehensive review of the Northwest energy system.

The Bonneville Power Administration, an agency of the Department of Energy, has played a dominant role in Northwest power markets for 50 years. BPA sells and exchanges power under contracts with over 100 utilities in the Pacific Northwest and the Pacific Southwest and with seven large industrial customers. BPA estimates that its service area of nearly 300,000 square miles has a population of approximately 9 million people.

An independent review committee, convened by the Governors of Oregon, Washington, Idaho and Montana, is currently reviewing the Northwest electric utility industry. The pressure brought to bear on BPA by deregulation and national competition in the wholesale power industry has provided the impetus for this regional self-examination. The review is seen among other things as a major regional decision mechanism to determine what should happen to BPA.

The range of options under consideration includes shrinking the role of BPA, divesting the Federal Government of its responsibility for BPA, and splitting the generation and transmission assets.

The review began on January 4, 1996, and is expected to conclude on December 5 of this year with the release of the committee's final report. Since this Subcommittee has a major oversight role for BPA, we are taking this opportunity to hear from some of the participants in the review process and to look more closely at the issues which are being raised.

Since the early 1980's, BPA's costs have risen dramatically while the cost of alternative power supplies has dropped. Where BPA once had a significant price advantage competition has begun to affect its market share. With these developments and the increased pressure on the Federal budget, it is appropriate to reevaluate the policies and proper role of this Federal activity.

There is a concern that BPA may be pursuing policy decisions during the regional review process which broaden BPA's responsibilities at a time when the Federal Government is trying to downsize and which are inconsistent with the BPA's stated intent to maintain the status quo until the review is complete.

A record of decision, issued in October 1995, states that BPA has decided to offer new products and services beyond those which BPA is obligated to provide by statute.

Quote, "In order to increase business and enhance BPA's revenue potential, BPA may provide products and services other than power, transmission, and delivery products," end of quote. Examples of these products or services include: design and construction of power or transmission facilities for other utilities; fish, wildlife, and environmental consulting; brokering of power and other services.

While each of these items may or may not have merit, there is a question if now is the right time for BPA to implement an expansion of its responsibilities. The record of decision does not place objective restrictions on the breadth of these endeavors. It is my understanding that BPA is now involved in designing overseas transmission lines.

Another issue which is raised by the review process is the effect of any decision on BPA's credit rating. Moody's Investors Service has issued a report stating that this outcome of the Comprehensive Review of the Northwest Energy System could affect BPA's credit.

The Department of Energy has recently proposed a policy change which would reduce the responsibilities the Federal power marketing administrations have for environmental compliance when engaging in certain activities. Included is a proposal to exempt them from environmental studies for transition lines less than 10 miles long. The proposed amendments appear to substantially expand the universe of PMA actions that will be presumed to not require an environmental impact statement or perhaps even an environmental assessment.

On May 10, I sent a letter to Secretary of Energy O'Leary raising questions about the proposed policy. And on May 20, the Department of Energy announced a reopening of the comment period to address those concerns.

In the fiscal year 1996 Appropriations Conference, the BPA was authorized to begin selling power outside the region when the power became available from existing customers leaving the BPA system. The issue did not get raised by BPA in this or any other authorizing committee. This is the type of issue that should be raised early and brought to this Subcommittee for consideration, rather than to address it through the appropriations process.

The future of BPA is a complex issue involving both regional and national interests. I look forward to the testimony of each of our witnesses.

It is my understanding that we will reserve for the Ranking Member some time for him to make an opening statement when he arrives. I understand his train was delayed, but he will be here in a few minutes.

With that, we will invite our witnesses to come forward and please remain standing while I administer the oath. We have Jack Robertson, Deputy Chief Executive Officer, Bonneville Power Administration; Alvin Alexanderson, Senior Vice President/General Counsel, Portland General Electric; K.C. Golden, Energy Policy Consultant; Richard J. Brown, General Manager of Ravalli County Electric Cooperative, Inc., and John Carr, Executive Director, Direct Services Industries, Inc.

If you will raise your right hand.

[Witnesses sworn.]

Mr. DOOLITTLE. Let the record reflect that each answered in the affirmative.

Under our committee rules, we have 5 minutes for the witnesses each to make his presentation. And those lights will be guides. The green light will be on when you begin, and the yellow light begins at the fourth minute, and then at the fifth minute when that has expired the red light goes on. Please try and wrap up when you see the yellow light.

I'd like to recognize Mr. Robertson to begin testimony.

STATEMENT OF JACK ROBERTSON, DEPUTY CHIEF EXECUTIVE OFFICER, BONNEVILLE POWER ADMINISTRATION

Mr. ROBERTSON. Thank you, Mr. Chairman, members of the Subcommittee. I am Jack Robertson and I'm Deputy CEO of the Bonneville Power Administration. We appreciate the opportunity to appear today. I congratulate the committee for seeking early hearings on the public and economic impacts of a new more competitive electric power industry.

This is an important topic. Electric energy is both the underlying fuel for the information-based economy of the 21st century, and essential to the health and safety of the general public. My comments today will focus on the comprehensive review of the Northwest energy system and the goals we believe to be paramount.

We will also present actions we have taken to successfully, we believe, stabilize Bonneville's financial conditions, even given the intense competitive pressures that you mentioned, Mr. Chairman.

First of all, let me say that Bonneville welcomes the Regional Comprehensive Review. We are active and enthusiastic participants in it. The Governors are approaching the halfway point in recommending changes for the Northwest electric utility industry.

Historically, Bonneville has distributed the benefits produced by the Columbia River Basin's hydropower system throughout the region to provide a balance in economic and environmental benefits consistent with the values of the people of the Northwest. However, as competition has led to lower prices for alternative power suppliers, it also has raised issues about the role Bonneville and what role we should play in the new competitive marketplace.

Bonneville is open and prepared to change to serve the citizens of the Northwest. The Department of Energy believes that the fol-

lowing strong Federal interests should be considered in the Regional Review:

Regardless of the ultimate structure that is adopted for the Federal power system, it is essential that this system continue to serve the important public purposes such as providing reliable and affordable power to the Northwest homes and businesses, funding fish and wildlife recovery efforts, and supporting energy efficiency and renewable technologies. DOE is pleased that the guidance document outlining the goals, scope and procedures for the review embraces these public purposes.

The second goal is it is critical that the costs and liabilities associated with the Bonneville system, including the Washington Public Power Supply System and the Federal Treasury debt, continue to be borne by the beneficiaries of the Bonneville system. Federal taxpayers have a \$9 billion investment in the Northwest hydroelectric system, which was made with the expectation that it would be repaid with interest.

We expect to pay \$5 billion to the Federal taxpayers in the next six years alone. If the Bonneville structure is to be altered, the region must ensure that it would not prevent taxpayers from receiving the expected return of their investment. As Congress and the administration struggle toward a balanced budget, it will not be realistic or fair to ask Federal taxpayers to bear additional burdens.

Let me go briefly through some of the actions that we have taken to stabilize our situation. Three years ago, there were many clouds of uncertainty on Bonneville's horizon, Treasury payment reform, fish costs, new power sales contracts to be negotiated, the list was long. Rapidly declining prices for alternative power supplies led to a crisis as our customers actively considered leaving the Bonneville system. I am pleased to say that today with the help of Congress and the Department of Energy, we have resolved virtually all of the challenges and have entered a period of basic stability.

Rigorous cost cutting allowed us to offer a 15 percent overall rate reduction in our recent draft record of decision on the rate case which was less than a couple of weeks ago. This rate reduction is the largest in BPA's 58-year history and comes with a 5-year guarantee.

We are meeting a highly competitive wholesale market created by the National Energy Policy Act by Congress in 1992. How did we do this? We reduced costs and staffing. We cut over \$600 million per year in our costs, levels below the fiscal year 1995 congressional budget in three separate cost cutting decisions over the last year and a half.

In terms of our overheads and employees, we set a goal of reducing Federal and contractor staff by 500 FTE's—a total of 1,000—each and we are well on our way of meeting or exceeding the thousand staff target overall. We're setting new lower staff targets and overheads in the coming months.

Next, we tackled our power sales contracts. We recently announced a key agreement with wholesale customers that will lead to a power and transmission system that is more efficient more stable, and more competitive; good news for Northwest consumers.

Bonneville's average priority firm rate would be reduced 14 percent for preference customers. Those are public utilities principally.

And our industrial power rate would be reduced by 16 percent. These figures are preliminary and the impact will differ by utility, and final decision is due in June.

Last year, we secured loads and revenues from nine direct service industries, most of which had started looking elsewhere for power supplies. At a value of \$360 million per year, we retained 84 percent of the DSI firm load for the next five years. Bonneville currently is negotiating amendments to our existing sales contracts and new 5-year contracts with public customers. To date, we have successfully signed up 65 customers, roughly half of our overall customer base, and we expect to make more announcements soon about successful completion of other contracts.

In 1995, we reached an historic agreement with the Clinton administration and the Northwest congressional leadership on Bonneville's fish and wildlife budget. We spend an average of \$252 million per year, plus river operations, to help fish migrations costing another \$90 to \$280 million per year for roughly an average of over \$400 million per year for fish and wildlife. This is the most money being spent by any region on fish and wildlife enhancement, we believe, in the world.

Bonneville is moving as quickly as possible to implement Congress' support of competition in the wholesale electric industry. We are currently taking actions to assure that our transmission access and pricing policies are consistent with new FERC policies.

As this committee is well aware, Congress passed and the President signed legislation to refinance Bonneville's outstanding appropriations owed to the Treasury. According to the CBO, the plan will increase near-term cash-flow to the government and reduce the Federal deficit by \$89 million over the next seven years. We again express our great appreciation to the committee and its members for supporting this important piece of legislation.

Finally, the fiscal year 1996 Energy and Water Development Appropriations Act includes language allowing Bonneville to sell excess Federal power outside the region for up to 7 years, as you had mentioned earlier, Mr. Chairman. We believe this authority can lead to increased revenue thereby further increasing our probability of making Federal Treasury payments. As a result of all of these actions and more, there is an 80 percent probability that we will make our Treasury payment in full and on time during each of the 5 years of the rate period.

That's up substantially from our expectations even a year and a half ago and is roughly equivalent to a 90 percent Treasury probability that was related to a 2-year rate case previous years. So the horizon is clearing and Bonneville's financial future is brightening. The actions we have taken will help ensure that the Northwest gets maximum economic and environmental benefits from the Columbia River and that taxpayers are guaranteed a return on their investment.

We are trying to manage our activities in a way that will not foreclose options for the regional review. It is important to understand the activities Bonneville has taken and is taking at this time are not designed to create an expansive mega utility. Instead, we are seeking to assure the best possible use of our existing asset base in order to provide low rates for consumers, strong environ-

mental benefits, and repayment of a Federal taxpayers' investment in this system, a \$5 billion issue in the next 5 years alone.

Changes to the electric energy business brought about by deregulation will affect everyone—Bonneville, public and investor-owned utilities, the Northwest environment, consumers throughout Washington, Oregon, Idaho and Montana. Our region has a remarkable history of rising to the challenge of change. It is in our hands to make the kind of lasting contribution that will preserve the Northwest's unique and enviable way of life into the 21st Century.

And with that, Mr. Chairman, I would ask that my formal remarks be included for the record, and I would be happy to answer any questions.

[The statement of Mr. Robertson may be found at end of hearing.]

Mr. DOOLITTLE. The Chair is going to recognize our Ranking Minority Member, Mr. DeFazio, for his statement.

**STATEMENT OF HON. PETER DEFAZIO, A U.S.
REPRESENTATIVE FROM OREGON**

Mr. DEFAZIO. I thank the Chairman for his indulgence. Sometimes the friendly skies are not so friendly and I had an adventure getting here.

Today, we're going to hear from some of the participants in the Comprehensive Review of the Northwest Energy System, which was convened by the region's four governors in January.

At the completion of my work as Chair of the Congressional Task Force on BPA in the 103rd Congress, it was clear that circumstances in form of rapid changes in energy markets combined with BPA's highly leveraged financial position were leading us toward a thorough rethinking of the Northwest Power Act and the political and economic arrangements that were enshrined in the act.

By the middle of last year I began calling on the region's Governors to convene a regional forum to attempt to come to some regional consensus on the major issues facing BPA. Today, the region is engaged in a constructive conversation about our energy future with participation from all of the relevant interests.

The basic question I hope to have answered by the review is this: How can we continue to further the purposes of the Northwest Power Act in a world of increasingly deregulated and competitive energy markets?

The purposes of the act are as relevant and important to the region's quality of life as they were when they were incorporated into law in 1980. Adequate and economical power supply, to encourage conservation and efficient energy use, develop renewable energy resources provide public participation in power planning projects, mitigate and enhance the Columbia River Basin's fish and wildlife populations.

Restructuring the Nation's utility industry and its energy markets will prove to be a tragic mistake if our only goal is the cheapest short-term kilowatt of electricity. Our challenge is to manage the industry's restructuring in a manner that promotes the best long-term stewardship of our environment while equitably sharing the economic benefits of restructuring with all of our citizens.

I share one or two concerns with the Chairman of the Subcommittee. During the period that the regional review is being conducted, Bonneville should not be taking actions that foreclose options the region may wish to consider. The long-term transmission access agreements and stranded cost protections BPA recently gave to the region's direct service industries is a case in point, and I would hope that that sort of action is not repeated during this interim period.

Secondly, we have to ask ourselves whether it is appropriate for a public agency to be a major unregulated market force competing head to head with private enterprise. That's not to say that I give great credence to the view that BPA or the Federal hydroelectric projects in the Columbia River Basin should be privatized. It is difficult to see how a private entity or entities could or would further the public purposes that govern Bonneville or the Bureau of Reclamation purposes that include flood control, irrigation, recreation, salmon recovery.

Furthermore, the management of the Columbia River Basin's assets is already too Balkanized. We don't need to further fragment authority for river operations and risk creating even greater conflicts between the basin's environmental and economic resource.

I look forward to the testimony. I hope to hear today that we have a process unfolding that will lead the region to some substantial degree of consensus in making a final proposal, because I do believe that Congress is going to revisit the Northwest Power Act in the next Congress, and having the region somewhat unified behind a proposal as opposed to competing interests attempting to end running for their own specific gain will be very problematic for those of us who live in the Pacific Northwest. I look forward to the testimony, and thank the Chair for his indulgence.

Mr. DOOLITTLE. Thank you. Mr. Alexanderson, you are recognized.

STATEMENT OF ALVIN ALEXANDERSON, SENIOR VICE PRESIDENT/GENERAL COUNSEL, PORTLAND GENERAL ELECTRIC

Mr. ALEXANDERSON. Thank you, Mr. Chairman. I appreciate the opportunity to testify this morning for Portland General Electric Company and as part of the Northwest investor-owned utilities. I am a member of the Steering Committee of the Comprehensive Review and one of two investor-owned utilities that are represented on that review.

I am a lawyer having spent 24 years in the industry, not all on the legal side. For a while I was president of a subsidiary called PGX from 1988 to 1990, which was the first power marketing affiliate of a U.S. electric utility.

Although that venture was short-lived, it was at the forefront of what is now becoming a highly competitive and robust electric marketing industry.

I have submitted for the record, as part of my testimony this morning, a presentation that I gave late last year before the Regional Review got under way at the Western Electric Power Institute. It's my version of the key policy questions and some of the answers that I hold, given my private utility perspective.

I won't elaborate on that presentation now, but I'll be glad to answer any questions that you or others may have on such issues as transmission access, industry restructuring, and the competitive environment.

For the moment I'd like to speak about process, and if you have my remarks in front of you, I'm going to skip right to the bottom line which starts over on page 4 and asks for three things from Congress at this point.

What I've said in the missing pages is that the review is under way, the right people are there, and the right issues are being addressed, and I think we're going to get the right answers. Although I don't know what those answers are exactly right now.

But in the interim we need three things. First, we need to assure that Bonneville's transmission system is operated as a separate business unit from its power business and is managed in a way that benefits not just BPA, but all electric customers in the region.

For the economic benefits of falling electric prices to flow all the way to electric consumers we need an open, nondiscriminatory and unencumbered transmission system now. We can't afford a Federal highway where only the Federal trucks get through.

Second, we need Congress to assure that during the Regional Review process, BPA will not engage in new business activities or sign any long-term sales contracts beyond the year 2001. If BPA is allowed to engage in risky new business ventures, all of which take investment or losses up front to be paid by profits in later years, without specific authorization or prior approval of the Congress, it will be establishing new facts on the ground. The Regional Review has enough facts to deal with right now.

And it will tend to preempt options which Congress may consider next year for reforming or restructuring BPA's activities. There is no agreement that Bonneville should grow.

Third, once the Regional Review process has submitted its recommendations we will need Congress to act quickly and keep up the momentum. Nowhere else in the country except in the Pacific Northwest does the Federal Government own 40 percent of the power market and 80 percent of the transmission.

Some kind of legislation is going to be required to assure that all electric providers are playing by the same rules and that customers who choose one provider over another do so because they have a lower cost, higher quality product, not because they were given special privileges.

I'd like to respond to one comment that Mr. Robertson made this morning about the good news coming out of the rate case.

It is true that the DSI's have good news out of the rate case. We expect that they have something on the order of \$100 million a year savings due to the combination of lower rates and market access being provided by Bonneville. And it is true that the customers of publicly owned utilities have some good news coming out of the rate case. They will see on the order of \$100 million a year annual benefits.

Unfortunately, the residential and small farm customers of the exchanging investor-owned utilities will see over \$100 million a year increase. Over a million customers in the Northwest will see a 21 percent increase in the rates Bonneville charges to them.

There has been a huge shift of cost responsibility among customer groups to those customers.

Thank you again for the opportunity to testify. I'll welcome any comments or questions you may have.

[The statement of Mr. Alexanderson may be found at end of hearing.]

Mr. DOOLITTLE. Thank you.

Mr. Golden is recognized.

STATEMENT OF K.C. GOLDEN, ENERGY POLICY CONSULTANT

Mr. GOLDEN. Thank you, Mr. Chairman.

My name is K.C. Golden. I'm an energy consultant and a member of the steering committee of the regional review.

You have my written statement, and I would ask that it be entered into the record. I will not reiterate it here, but I would like to say a few words about the substance and process of the regional review and Bonneville's future.

In 1980, as Congressman DeFazio alluded to, Congress passed the Northwest Power Act that gave the region very strong guidance on how to conduct its energy business and how to chart the course to its energy future, guidance that in fact became the template for energy policy and planning nationwide and was very successful in the region.

Our job, as I see it, in the comprehensive review is not to repudiate that guidance. The goals are right. The goals remain as contemporary and important today as when they were written. But the mechanisms clearly have to be modernized to keep pace with an increasingly competitive power industry. Particularly we need to rethink Bonneville's role in a more competitive power industry as a Federal institution.

Now, different members of the animal kingdom adopt different sorts of survival strategies. Some animals survive by seeking camouflage and becoming indistinguishable from their surroundings. Some survive by being bold and distinctive, offering something that clearly is not available among their competitors or in their surroundings.

Bonneville's early response to an increasingly competitive environment was the camouflage response. They sought to become more like the competition. They sought to make themselves indistinguishable from the competition in order to compete. And I think that what Bonneville found out is that, as Mr. Alexanderson said, when you have nearly half of the region's generation and better than three-quarters of its transmission, it's a little hard to inconspicuously blend in among your competitors and act as though no one will notice you.

I think Bonneville has begun to discover that the more it becomes indistinguishable from its competitors, the more people begin to ask why the Federal Government needs to play that kind of role. And I think it is clear now that Bonneville's survival depends not on being just another competitor but on clearly articulating a public mission, a contemporary public mission that works in today's power markets for today's needs and that distinguishes it as a uniquely valuable public institution than its competitors—that

provides service to the region well beyond what its competitors can provide.

There is room for discussion about the dimensions of that mission, but I would offer a few for your consideration. One is to secure the taxpayers' investment in the Federal system and to maximize the productivity of that investment for future generations of taxpayers and Northwest consumers. That is clearly a function that none of Bonneville's competitors are prepared to undertake.

The second is to wisely manage and fairly distribute the bounty of the Columbia River, which although Bonneville has faced some tough times and increasing competition, is still very substantial and still forms the backbone of the Northwest power system and its economy.

And finally, in thinking about Bonneville's future role, I think it is very important that we not respond to controversial Bonneville undertakings by neutering Bonneville but by more appropriately and clearly focusing it on the public functions that no other institution can provide and then making sure that it has all the tools and the resources to succeed at those public functions.

Finally, on process and on the regional review, I am very proud of what the Northwest has accomplished in the years since the WPPSS crisis almost took down our power system some 15 or 20 years ago. We have developed a proud tradition of regional cooperation, of public involvement, of genuine public discourse and control about the shape and direction of our energy future, and I think we have a better energy system to show for it. And I think few would contend otherwise.

I know folks in the Tennessee Valley, where there is far less accountability on the part of the Federal institution to regional interests and regional dialog, think that the Northwest is an enviable model of how to make a Federal power institution more accountable to regional interests.

And I think that proud tradition in the Northwest, along with the extraordinary good faith of the steering committee members and the incredible amount of elbow grease that is being applied to the comprehensive review, justifies my optimism, and I hope your optimism, that this process will deliver solid results, and I think it justifies support from Congress.

No region and no collection of individuals, I think, could be better qualified to succeed at what is admittedly a very ambitious undertaking. But our prospects for success will be enhanced immeasurably by a clear signal from the ultimate decisionmakers that, for now, the comprehensive review is where the action is, that this is the place where you expect competing interests in the region to reach mutual accommodation, and to come back to Washington, D.C., with some semblance of regional consensus.

That kind of signal from you all, I think, will make our job much, much easier and much more likely to deliver a product that you can be proud of and that you can act on expeditiously.

Thanks very much. I welcome any questions you may have.

[The statement of Mr. Golden may be found at end of hearing.]

Mr. DOOLITTLE. Thank you.

Mr. Brown is recognized.

**STATEMENT OF RICHARD J. BROWN, GENERAL MANAGER,
RAVALLI COUNTY ELECTRIC COOPERATIVE, INC.**

Mr. BROWN. Thank you, Mr. Chairman.

I am Rick Brown, and I appreciate the opportunity to testify before this distinguished committee on regional review.

The rationale behind the regional review in the Northwest energy system I think boils down to the implementation of the 1992 Energy Policy Act and the requirements of it, FERC mega-NOPR on open access on transmission, and the falling gas prices in the Northwest.

The problems we are trying to resolve with the review are both national and regional: How do we meet the mandates that Bonneville and the region currently fall under and still fulfill the current obligations that we have as public utilities?

BPA has a unique position in the Northwest energy picture. They have been, and I think will continue to be, the measure of the marketplace in compared rates. They have over the last 50 years had 50 percent of the power supply in the region. They also own and operate 80 percent of the transmission.

To develop a strategy to deal with the changing world, the four governors appointed a blue ribbon steering committee of approximately 20 members. This working group has reviewed other deregulated industries and, while they are not identical, they do have some similarities. This working group has also reviewed the deregulation of electric industries in other countries.

The steering committee has also appointed four working groups to look over specific items. One is transmission; one is Federal power marketing; one is conservation, renewable resources and public purposes; and the last is competition and customer choice. These groups are trying to decipher where we are currently at and what may be the preferred alternatives as we move into this changing electric energy.

The status of the regional review: We've had very good participation, from my understanding. Over 800 members, customers, to date have participated in the process. That's similar to coming to consensus with our Congress. Regional cooperation from all the sides has been good. Even though they don't agree on every issue, they are working together to develop consensus positions which they can report back to the governors sometime later this fall.

It's my understanding that the first draft report to the public will be put out sometime after July, and at that time we will have more public input and changes or comments to the regional plan, and then a final draft will be submitted to the governors probably in December.

That concludes my remarks, and I appreciate the opportunity.

[The statement of Mr. Brown may be found at end of hearing.]

Mr. DOOLITTLE. Thank you.

Mr. Carr is recognized.

**STATEMENT OF JOHN CARR, EXECUTIVE DIRECTOR, DIRECT
SERVICES INDUSTRIES, INC.**

Mr. CARR. Good morning, Mr. Chairman, committee members. I'm John Carr, executive director of the Direct Service Industries.

The DSIs are eight companies, aluminum and chemical, that purchase electricity in the Pacific Northwest. The companies produce approximately 40 percent of the U.S. production of aluminum and contribute approximately \$2 billion a year to the Northwest economy.

Traditionally, the companies bought the bulk of their power from the Bonneville Power Administration and contributed between a quarter and a third of BPA's revenues, but traditionally also had access to the open power market to acquire power when BPA was unable to serve them.

With the listings of various Endangered Species Act salmon in the Pacific Northwest, the ability to use the Columbia River has been changed and flexibility has been taken away from BPA, which meant that they could not rely on some of their traditional means of serving the DSIs.

Because of that and changes in market circumstances, the DSIs negotiated new contracts with BPA last year and, as an outcome of those contracts, now have long-term access to the bulk power market and are probably the first industries in the United States to have that ability. That has caused the DSI rate to decrease and caused the preference rate to decrease—that is the rate to public utilities and has set a precedent for other industries.

Let me spend a couple of moments on the comprehensive review. We are participating in the review. We have a member on the steering committee and are participating in each of the work groups. We are committed to making the process work.

I give the review good marks so far. People are working together. I think it's early enough where everyone has kept an open mind and realize that the issues are probably more complex than what a lot of us realized going into it.

We have taken some principles into that process, and there are five of them: One, whatever comes out of the process must lead to open access on the transmission systems. And that's broader than just the Federal transmission system; that means all high-voltage transmission systems.

Ultimately, consumers must have choice and must have the ability to choose their supplier. Customer choice is the hallmark of competition.

Subsidies must be eliminated. We cannot continue to rely upon large industries to subsidize other customers. And I think as we dig into it, we will find that there are many cross subsidies in utility rates.

We must be able to develop an accountable salmon program, one that has clearly defined objectives, accountable results and is done in a cost-effective manner.

Finally, we must preserve the Northwest values and public policy objectives that are important to all residents of the Pacific Northwest, but we must find ways, to the maximum extent possible, to achieve those results through the competitive market.

In conclusion, I think the region needs an opportunity to continue working on the regional process. I believe we are ahead of the curve on the deregulation, or opening up of competition, in the electric industry, but we need to assure that the Northwest is doing it in a smart way.

For now, I would ask the committee to give us an opportunity to come up with our own solutions, to not prejudge alternatives, and wait for the result of the process. I think we will achieve a good result in the region. We have a long history of being able to work together, and I'm hopeful that we will again achieve a good result.

Thank you, and I would be happy to take any questions.

[The statement of Mr. Carr may be found at end of hearing.]

Mr. DOOLITTLE. Thank you.

Mr. Alexanderson, you indicated, I think, that while the rates—the priority firm rate and the industrial power rate were being reduced—I think the figure was \$100 million—that roughly we were going to see that amount of increase or more on the residential customers. Was that a correct characterization of what you were saying?

Mr. ALEXANDERSON. Yes.

Mr. DOOLITTLE. So, we are reducing the rates for one group but increasing them for another. So in that case, we're not really taking advantage of lowered costs. It seems like it's more cost shifting. Is that your view?

Mr. ALEXANDERSON. Exactly. Mr. Chairman, that's what happens when you allow market access at a time that the region is vastly surplused, an estimated 30 to 40 thousand megawatts. The market will not recover the fixed costs of generating resources in a situation where there is overcapacity, at least not for a while.

Contrast that with a situation where market access is allowed when there's a shortage of energy and there's no provider. At that point, market access costs the person that has market access; he loses his opportunity to buy from the old resources and has to buy from someone who will build a new resource.

At a time of surplus, the market clearing price is generally something near the marginal running cost of the resources on the West Coast, and so market prices are very low right now. That means if everyone has market access, no one will recover the fixed cost of the embedded access that creates that wonderful market.

So that's exactly right. Market access can create—and if you allow market access and you say oh, my goodness, my rates have to be lowered in order to compete with the market access, that can create a situation where the fixed costs of the existing resources are shifted among customer classes, and that is one of the key equity considerations that needs to be looked at in a shift to a competitive market.

Mr. DOOLITTLE. Mr. Robertson, do you care to comment on that situation?

Mr. ROBERTSON. Yes, thank you, Mr. Chairman, I do.

Just to go back through the numbers, because of the actions I described earlier, we are proposing in our draft record of hearing to lower rates to public utilities that buy power directly from Bonneville by about 14 percent, and industries will get about a 16 percent rate discount.

The program Mr. Alexanderson is talking about is the Energy Exchange Program that was created by the Northwest Power Act in 1980. The simple purpose of the program was to try to pass through the benefits of the Columbia River system to higher-cost utilities in the region. So that Bonneville in a paper transaction ex-

changed our power for their higher-cost power. The result of that was a net benefit that was passed through to the ratepayers of higher-cost utilities in the region. We have provided about \$2.4 billion in benefits to those ratepayers from about 1980 through 1995.

The requirement of the act, though, said that when Bonneville's rates begin to be affected by the market conditions such that public preference rates would be affected negatively by those conditions, a provision called 7(b)(2) would kick in. That provision tries to protect public utilities first from those market conditions.

The protections of 7(b)(2) kicked in because of the market that Mr. Alexanderson just described. The total effect of that was that the pass-through benefits of \$2.4 billion that had been provided historically were reduced in Bonneville's initial proposal last July.

We have recently come up with an agreement with Congress which freezes those benefits at \$145 million for next year, so there will be no rate impact next year for ratepayers of higher-cost utilities. In the draft decision we made 2 weeks ago, the net cost of the exchange the benefits for these ratepayers for the remaining 4 years of the 5-year period goes up from about 65 to 75 million dollars per year. This totals about a half a billion dollars of continuing benefits to those ratepayers for that 5-year period, including the \$145 million.

So there is a rate impact. It does end up having an effect on the ratepayers of Mr. Alexanderson's company, for example, but a large continuing benefit continues to go forward, and we believe we did what was required by the law in 1980.

Mr. DOOLITTLE. Do you think Bonneville is going to be able to avoid incurring new obligations that would have a long-term impact until we can get the results of this study that is ongoing?

Mr. ROBERTSON. Yes, Mr. Chairman.

I appreciate the intent of your questions and Mr. DeFazio's as well and others that we have talked to. The point, I think, is that the region wants to go through an effective review, and it wants to make, as the region has done historically, the decisions about what happens with the Columbia River system.

We are putting, as I indicated, contracts together for the 5 years between now and the year 2001 because we believe that is essential to creating a sound financial footing upon which the future decisions can then be made.

So we are trying to finalize those important contracts that will stabilize Bonneville's situation finally, and then if there are changes as a result of the regional review, we believe those changes can be incorporated in new contracts.

Mr. DOOLITTLE. Thank you.

Mr. DeFazio is recognized.

Mr. DEFazio. Thank you.

Mr. Robertson, I guess one of the areas of concern, not the most dramatic, but is an area of concern regarding potential for foreclosed option, is the ESCO proposal by BPA. I was surprised when it first surfaced, and I guess it is still gathering steam. What do you have budgeted for the next 5 years for the ESCO?

Mr. ROBERTSON. For the energy services business that we described, we have about \$20 million in capital budgeted and about \$5 million in expense.

Mr. DEFazio. Is there a shortage of these services out there? Is that why BPA has to jump into the breach?

Mr. ROBERTSON. K.C. Golden indicated earlier, Mr. DeFazio, we have a huge tradition of energy conservation in the region that began with the 1980 Act in the region, and it has gone for 15 years, and Bonneville invested about a billion and a half dollars in a direct, centrally-acquired conservation programs for years while Bonneville's rates were well below the alternative rates of consumption.

As we described earlier, there is a tremendously competitive marketplace right now. Bonneville had to figure out ways to achieve the objectives of the Northwest Power Act for conservation in new and reinvented ways. One of the keys to that, we think, is for Bonneville to be—to play an important niche role in creating and expanding the energy conservation service business in the Northwest. There is a business there now. There are definitely energy services companies, and the reason for that is because the Northwest has become one of the most energy-efficient regions in the country.

What we're trying to do in the energy services business is provide capital and provide market transformation services which typically individual companies cannot provide. We think generally our business, as I said, will be about \$20 million of what we think is about a \$200 million ESCO and related business in the Northwest.

We are not seeking to be a dominant market player or to become the only energy services company in the region by any stretch; we are simply trying to assure that conservation goes forward in the most cost-effective way.

Mr. DEFazio. So, you intend to target market segments that other competing, existing private or public ESCOs, nonprofits, might not target? Is that the idea?

Mr. ROBERTSON. That's our intent.

Mr. DEFazio. And might those, if no one else is seeking them out, turn out to be not profitable?

Mr. ROBERTSON. It's possible.

A good example is, we hope to go into rural areas, and typically ESCO services have not rushed into rural areas because of the lack of density of customers. But Bonneville has a long tradition in rural areas, and we're looking forward to trying to help and fill that void, which we think is important.

I want to say one thing that is exceptionally important based on, I think, your concerns and others'. We have put forward a draft plan to the regional review for Bonneville's involvement in this business. We have basically asked the region to take a look at this, make sure that we're filling the kind of void we think is important to fill. If we're not, we will get advice back on it. But we have not made up our mind to go forward on this, pending the regional discussion.

Mr. DEFazio. I guess that begs the question of what alternatives others on the panel—how would various members of the panel propose that BPA pay for, or the region otherwise promote, the public purposes enshrined in the act? Or do members of the panel think that we should abandon those public purposes, particularly con-

servation, renewables, certainly salmon, salmon recovery, fish and wildlife generally? And I guess, you know, I'll start with anyone who wants to volunteer in the brave new world.

Go ahead.

Mr. BROWN. I'm not sure that the region wants to abandon the principles for conservation.

Mr. DEFAZIO. There may be panel members who do, but go ahead. I'm only asking the questions.

Mr. BROWN. Under conservation, I think that they would like to see that cost-effective, and it needs to take its place alongside other renewable resources, and if it's cost-effective we would probably support that.

The salmon issues: Public power has always supported the best science available for the salmon. Currently we spend a lot of money and we are getting very little return for it, and it is very hard to justify that back to the members, the end users, in their rates.

We have testified to that with our members at the annual meetings, and they support a scientifically-based salmon program that can show some results; and, quite frankly, we have been hard pressed to show them that we have made results for the money that we have spent.

Thank you.

Mr. CARR. I want to make it clear from the DSI perspective that we support the continuation of the public policy values of the Pacific Northwest. It was one of the five principles I earlier put on the table. That includes salmon. It includes efficiency. We have a great renewable system, but need to keep pushing the envelope. Regarding rural systems, we need to take a look at maintaining cost-effective service to them.

The suggestion we've tried to make is, let's identify each public policy area and ask ourselves the following question. What should we continue to do in a competitive market?—and search hard to see if there are ways to use the competitive market to achieve those goals. And if we can't, then we need to look at other alternatives, and we've said that we are open to doing that.

Mr. DEFAZIO. Mr. Chairman, my time has expired, but if members could reorient their responses, I'll come back to this, which is, if you're in agreement with these public purposes, although you want efficiencies, my question is, do you see options of pay for them?

Mr. Carr has raised two ideas. One: Is there a way in the competitive market to promote them, or, if not, are there other alternatives? And I would like people to address the feasibility and/or the alternatives and whether or not they themselves and who they represent are willing to share in those alternatives. That is the question.

Thank you.

Mr. COOLEY. [Presiding.] Mr. Hastings. Five minutes.

Mr. HASTINGS. Thank you, Mr. Chairman.

I guess I'm really looking forward to what comes back when this process is all over with. I've heard from virtually all of you, at least, alluding to the fact that you would kind of like us to stay out of this until you get done so you can bring back a product.

I understand, Mr. Golden and Mr. Alexanderson, you are two that are on this committee, the only two? None of the other ones?

You said, Mr. Alexanderson, pretty specifically, that you were very confident of a decision that everybody could live with when this process is all done. It just seems to me, from the perspective of having lived in that part of the country virtually all of my life, there are so many divergent views there, yet you seem so confident.

Without trying to get you to be very specific, I know it is not a very fair question, what leads you to believe with this confidence that you expressed today?

Mr. ALEXANDERSON. Well, I am an optimist is part of the answer, I guess. But I think that the review has achieved a pretty rich dialog, and that is an important first step.

I think the right issues are being raised, and we have the right set of resources focused on looking at the eligible answers.

I am not certain there is going to be agreement—I think there will be agreement on a few things, and I think there will probably be some areas, a lot of details where there is not agreement. But I think there will be a product, and whether we can go beyond principles that are agreed all the way to implementation details, institutions and legal structures that need to be changed, I don't know yet, but I'm not ready to rule it out.

Mr. HASTINGS. Mr. Golden, do you share that?

Mr. GOLDEN. I do. Al is a realist, not an optimist, and I think there are a lot of reasons to be optimistic. Frankly, there are a lot of shoals that this thing could go aground on, too.

I do think that my optimism depends in part on the optimism of this body. I think the more that the ultimate decisionmakers are pointing to this process and investing their confidence in it, the more likely it is that the people around the table will see it as their best hope to reach an appropriate accommodation. It is a mutual undertaking, I think.

And frankly, part of my confidence is based on the fact that I think from the perspective of the consumers and citizens of the region, the alternatives to delivering some semblance of a working regional consensus are pretty dismal. I think that what we will see is a continuing piece by piece erosion of the benefits and the mission that Bonneville has brought to the region for 50 years. And I think those benefits and the Columbia River, a well-managed Columbia River system, are the backbone of what makes the Northwest the Northwest.

And my hope and my belief is that despite our varying interests in detail, that we all share a powerful enough interest in maintaining a healthy Columbia River system for the benefit of the region and to repay taxpayers for their investment that that interest will prevail.

Mr. HASTINGS. Are other energy sources being considered in this whole review; natural gas, for example? Is that part of what your discussion, your review, looking at alternative energy resources?

Mr. GOLDEN. It has been raised. Natural gas in direct application, I assume you mean, as opposed to an electric generating resource?

Mr. HASTINGS. Right. Right.

Mr. GOLDEN. The issue has been raised. The natural gas industry has largely been restructured, and it itself has already gone through the throes of some of the process that the electric industry is going through now. But inevitably dramatic changes in regulation and policy for electric services will affect natural gas.

One of the areas where I think it is most actively in play is to the extent that we are making system-wide investments in increasing the efficiency with which energy is used, do we want to make sure that we are doing that even-handedly with respect to natural gas and electricity.

That's one place where I know the issue has come up. But we are not really trying to undertake the restructuring of the natural gas industry.

Mr. HASTINGS. One final question. Mr. Robertson, you made a statement in your testimony, or maybe I didn't catch it in your testimony, but you said that with the restructuring and the legislation that has passed in the past, BPA now has an 80 percent probability to meet the payments in the next 5 years. Give me a scenario for the horrible 20 percent.

Mr. ROBERTSON. Well, I hate to do that, just by the implications of it. But just to put it in context, Mr. Hastings, 80 percent probability in each year of the 5-year period is equal above a 90 percent probability in what used to be a 2-year rate period. It is as high as we have enjoyed it, I would say, in the past, if our numbers hold true.

The 10 percent or 20 percent probability events are a combination of extraordinarily bad circumstances in virtually every area. You would have record droughts, and we can lose up to \$400 million a year just on water conditions alone. You would probably have more than one year of record drought. You would have a combination of low aluminum prices and industrial shutdowns. You would have to go to the edge of what would be a depression-type scenario combined with bad water to get to the 10 percent we are talking about.

It is possible, particularly with the dynamics in the marketplace. But a lot of the contracts we are signing through the 5 years are take-or-pay contracts where a lot of the value is assured in terms of Bonneville's revenues. If they don't take our power, they have to pay for it anyway. We are trying the best we can to mitigate those uncertainties.

Mr. HASTINGS. Is it fair to say that it is more economic conditions that drive that than policy conditions?

Mr. ROBERTSON. It is mostly natural conditions that drive that. The river, as we saw this year in the flood, is still only 40 percent controlled by the dam system. It is an enormously complex system that can go dry, as it can go wet, and that's the big contingency we worry about.

Mr. HASTINGS. Thank you. Thank you, Mr. Chairman.

Mr. COOLEY. Thank you, Mr. Hastings.

Mr. Robertson, you are right now in negotiating with the Pacific Northwest generating cooperatives and other public utilities groups concerning diversification of the power mix. How is that coming along?

Mr. ROBERTSON. As I indicated in my testimony, we were delighted to sign up 65 utilities, which is about half of the public power utilities in the region, recently for 100 percent load commitment to Bonneville. The other half is in a set of negotiations either as a group, which is the case with PNGC, or directly with other individual utilities. And the negotiations in each of those circumstances is a day-to-day issue. We are hopeful that within a month we will be able to wrap up effective negotiations with all the utilities.

There are still issues remaining. We have gone a long way in resolving issues with PNGC. We have a significant issue left that we are working on that relates to the possibility of retail access and who would bear costs in that event. I am optimistic we can finalize that and move on.

Mr. COOLEY. So you think that the retail access part of the negotiations is the one you are having a difficulty with?

Mr. ROBERTSON. Well, we are allowing access. I think it's highly unusual. We are allowing up to 15 percent access to the marketplace as part of these contract negotiations, which I think we are at least setting a standard that is important for the rest of the industry.

The retail question is a States question. The access to retail markets is controlled by States, the four Northwest States. And the real issue there is are the States going to allow access to the retail markets during that 5-year period. If they do, and that causes a loss of load or something else, who and under what circumstances would we share those costs? That's really the issue at stake now.

Mr. COOLEY. Well, right now wouldn't we have to do something to the Regional Power Act in order to have the access to retail customers?

Mr. ROBERTSON. Right now Bonneville is 100 percent in the wholesale market, which is why we had to be so competitive so quickly. We do not have controlled retail franchises, as many utilities do in the region. We have contracts with our existing customers, and Bonneville is not allowed to deal directly with retail access of loads.

That, again, is a States question. If the States open up retail loads to the wholesale market, Bonneville will be, along with many other players, competing in that wholesale market for the business.

Mr. COOLEY. So the Regional Power Act has some mechanism where you could go retail if the States allowed it?

Mr. ROBERTSON. The Northwest Power Act allows Bonneville to operate at the wholesale market. The triggering point for getting retail to the wholesale market is States' laws. When States act, one way to put it is the Northwest Power Act doesn't prohibit us from competing for that retail market as well.

Mr. COOLEY. OK. Well when you make statements about achieving a level playing field are you talking about this retail market? Is that correct?

Mr. ROBERTSON. The level playing field issue has been described differently. Everybody is concerned about their version of the level playing field. Our version of it is that we are anxious to be able to respond to retail change when the States decide to do that, and

not before that time. We are not trying to prejudice State decision-making in that area.

Our version of why we need to stay competitive, and to have a level playing field, is because we are providing a huge amount of public benefits. We are providing a \$400 million and counting Fish and Wildlife program. We are providing public exchange benefits that I described earlier, half a billion for the next 5 years. And no other utility that I know of has those kinds of responsibilities.

We are not trying to get anything special. But what we are trying to do is fulfill the responsibilities with our existing resource base the way Congress wanted us to—to keep rates low, keep our environmental benefits high and our Treasury payment high so that we don't end up affecting taxpayers.

Mr. COOLEY. In your testimony you talk about a new division operating the power transmission from the power generating part of it, and then you talk about loans and all kinds of different mechanisms involved in that process.

Could you better explain to me what the proposal is on that?

Mr. ROBERTSON. You bet. There are three basic businesses that Bonneville hopes to be in. The first two, which are traditionally the largest and most important, are the business of generating power, and then the business of transmitting that power to end use consumers through the retail utility system of the Northwest.

I want to say, first of all, that FERC's latest mega-NOPR is clear in its direction. It wants transmitting and generating utilities, integrated power companies, to separate power, isolate it, to assure—as Mr. Alexanderson said—that the highway system on which electronic commerce flows is managed by an independent entity that will allow free flow of commerce.

And Bonneville is moving rapidly to separate and isolate its transmission business from its power business, and to meet and hopefully even exceed the expectations that FERC has laid on the electric utility industry, even though the mega-NOPR doesn't apply directly to Bonneville.

The energy services business is the third business, and that's the one I think you're asking about. What we are proposing to the Regional Review is that we pick up the energy conservation mandate of the act in a new and reinvented way. We want to deal directly in a decentralized way with utilities around the region to try to create market transformation in that business, to encourage efficient appliances and so on. And to help pay for that we have proposed to create an energy services business that would go out and try to further energy services and conservation in the marketplace, working in partnership with ESCOs and other companies, to further the conservation mandates of the act at far less cost. And that does include—we propose that includes the ability to make not loans per se, but financial transactions which will add value, further the Acts objectives and fill a market niche that we think is lacking.

Mr. COOLEY. So you have personnel available to go out and help these private utilities achieve these certain goals that you're suggesting that they need to accomplish?

Mr. ROBERTSON. Both private and public utilities and Federal agencies, potentially. And the personnel Bonneville has is an excellent and highly-regarded conservation staff they have helped put

together this massive energy conservation program in the region in the last 15 years which we've spent about a billion and a half dollars on. It's that personnel with an established, national reputation, we are trying to fully utilize and redirect in the form of an energy services business.

Mr. COOLEY. And the private sector can't do this?

Mr. ROBERTSON. Private sector can and is doing that. There is about a \$200 million energy services business, we think, in the Northwest. We are proposing that this fill only about a \$20 million chunk of that, if we are successful.

But there are certain things that private business and ESCOs have not done. They haven't created market transformation. They are not capable of moving codes with respect to energy-efficient appliances or manufactured housing programs, for example.

That's has been historically a Federal role, just like the high efficiency building codes we have now was a key objective of Bonneville's and the States in the last 15 years. The ESCOs then, the companies, the private sector companies, are doing very well filling in, actually applying and installing those services, and they'll continue, I think, to do well. Our objective is to create a larger energy conservation market by this business so that private sector firms can prosper.

Mr. COOLEY. My time is up, thank you.

Mr. DeFazio.

Mr. DEFazio. Thank you, Mr. Chairman.

Mr. Robertson, just on part of that answer to the last question, BPA moving rapidly to separate and isolate, I've heard sort of contradictory things on how separate and how isolated you might be moving on transmission. Could you address that a little bit? Because I hear awfully contradictory things.

Mr. ROBERTSON. It seems clear to me that one of the consensus areas that seems to be coming out of the Regional Review, and it's consistent with where FERC has now directed that the electric utility system private sector go in this area, is that integrated utility companies, integrating generation and transmission, need to assure folks in the marketplace that the transmitting part of what they do is independent of the generating part of what they do. If Bonneville, is in charge of 75 percent of the high voltage transmission system of the Northwest, that's the energy highway. Think of it as a highway system. In this case the Federal Government owns and operates and maintains that highway. Bonneville in its generating function supplies just under half of the region's electric energy.

The big concern of non-Bonneville generators in the region is that Bonneville will use the transmission system to give an unfair advantage to its generating commerce on that highway. The trucks, to use Mr. Alexanderson's terms—

Mr. DEFazio. Jack, I think I understand. I think my question is how committed is BPA actually actively considering something that would be independent? I've heard that it would have to be part of BPA, but sort of independently governed by one of the vice presidents in charge or something. Or others envision it being more separate, and they don't feel that would be separate enough.

Mr. ROBERTSON. Sorry to be so roundabout. The direct answer in the existing law and framework, Bonneville has one administrator, and we need to keep generation and transmission under one roof.

Mr. DEFAZIO. Absent legislation, you couldn't have an independent—

Mr. ROBERTSON. Absent legislation, we are doing everything we can within our authority to make the transmission entity independent from the power entity.

Mr. DEFAZIO. OK. That is helpful. Mr. Alexanderson, if you could, what have you considered for your customers and customers of other private utilities that have previously received exchange benefits; what options would you offer? What has been offered during the Regional Review process to continue those benefits, access to the hydro base?

Mr. ALEXANDERSON. One of the options is—that's been proposed, which doesn't seem to work very well on the math to me, is to allow those customers to buy directly from Bonneville at a preference rate.

Other options—and these are options, I should say—I think I'd like to answer, if I could, by referring back to the second to the last page of the presentation that is included as part of my testimony called funding nonmarket activities.

There are a number of things about Bonneville that we all love that will not be supported by a purely commercial power market without some additional funding source or some additional structures in place to make sure they can be continued. The exchange is one of those, but it is not the only one. And it seems to me that the funding options for all of those so-called public purposes, which include rate equity, mitigation of environmental effects, funding for renewable resources and the like, there's a relatively small set of options.

One source of funding is some kind of consumption tax. Another that's been considered is a transmission adder of some type. And the key here is where's the money collected, and where does it go? All of these possibilities have the capability of being developed in a way that shift costs around among customer groups dramatically, or they have the possibility of being enacted in a way that doesn't cause those great shifts.

A third possibility is a direct Federal subsidy for some of these things; not a very popular one, I suspect. And a fourth possibility that we've talked about is new efficiencies and cost savings, and clearly there are some of those that are available.

The one that seems to get the most debate is the idea that we can fund the nonmarket activities by new market adventures. And I somewhat facetiously referred to a government baseball team there as a funding mechanism only to bring up the point that you could imagine new government activities that would be profitable, and all the business plans I've ever seen look really good. They're profitable in the out years as a way of funding these nonmarket activities, but the role of the Federal Government in the competitive market is a significant part of the regional debate with a lot of people being concerned that we are not sure that the government will be successful, and only if it is successful can it fund the nonmarket activities.

And we don't really have a very good picture of what a failure looked like. The question was asked earlier what happens if there is a failure? And the answer is the taxpayers have taken the risk, and the taxpayers will get the failure.

Mr. DEFazio. Or the ratepayers.

Mr. ALEXANDERSON. Or the ratepayers.

Mr. DEFazio. I guess we would look at task as a not particularly successful market activity.

My time has expired, but I guess of the list you gave, the cost savings, transmission, consumption tax, direct Federal subsidy, and Federal nonmarket, I mean I would urge everyone to sort of stretch their imaginations and see if there are other options.

I know there has been a lot of discussions lately of this consumption tax or end user charge, and I have attempted to caution anybody and everybody that comes by my office that, you know, that's not particularly likely in Federal legislation, and that we are going to have the first ever energy sales tax at the local meter, you know.

There have been two examples of attempts at sales taxes on energy. One was at Multnomah County—which had everybody threatened with recall even before it got to the ballot, so it never got to the ballot—to pay for the most popular service, which was the library; and one was in Eugene, a liberal bastion, to pay for low-income housing, and it failed dramatically and miserably, and when they did a poll afterwards, the surprising results of the poll were people don't like sales taxes.

I come from a non-sales-tax State, so you won't find me supporting a sales tax on energy. I don't know if other people will rush into the breach. Perhaps those Members from sales tax States will rescue you, but I suggest other options.

Mr. COOLEY. Thank you, Mr. DeFazio.

We are joined by Mrs. Chenoweth, and we will let you have the next 5 minutes.

Mrs. CHENOWETH. Thank you, Mr. Chairman.

Mr. Robertson, good to see you again.

Mr. ROBERTSON. Good seeing you, Mrs. Chenoweth.

Mrs. CHENOWETH. You stated that BPA has recently announced that its priority firm rate and its industrial power rate would be reduced.

Would you tell us what has happened to the transmission rates over the last two years? Have they gone up or down?

Mr. ROBERTSON. Transmission rates have gone up, but I want to say that we have entered into, I think, a fairly significant agreement among all transmitting utilities, as a result of this rate case. The agreement will stabilize those transmission rates for the 5-year period, and it will put tariffs and conditions on the Northwest which we think will be highly advantageous in the long run to stabilizing rates and helping consumers.

Mrs. CHENOWETH. Hopefully at the end of 5 years, we can see another stabilizing contract with rates lower than they are now?

Mr. ROBERTSON. A lot will depend on how effective the transmission system is, but I hope that is true.

Mrs. CHENOWETH. I hope so.

Mr. Robertson, on October 17, 1995, BPA issued a Record of Decision on firm nonrequirements products and service contracts. In

that document Bonneville states it has decided to offer long-term firm nonrequirements, FNR products and services contracts that can be customized for interested utility and direct-service industry customers needing products and services beyond those which BPA is obligated to provide by statute. That's very interesting. The document also states potential customers for BPA include utilities and DSIs within the region, and other power purchasers inside and outside the PNW.

Finally, this same document states that BPA must develop new strategies to retain existing customers and attract new ones.

Is Bonneville proceeding as the October 17th Record of Decision describes?

Mr. ROBERTSON. I indicated earlier, Mrs. Chenoweth, that what Bonneville is doing is proceeding to finalize its contracts with both in-region utilities, the big chunk of public power which is left. In addition, we're proposing to enter into contracts with some utilities in California and elsewhere as a result of the new legislation we received last year to sell the excess power of the Northwest. Excess power fish-related energy that is generated, or power that is abandoned, by Northwest customers, can be sold into California, to get a higher value return for that energy benefit, in turn will come back to the Northwest and help keep our rates low and stable.

Along with that, we are providing a mix of energy services. The description in the business is we are "unbundling" services, and those include services that might be described as the traditional "bread and butter" kind of services provided by integrated electric utilities; generation, capacity, energy and so on. They also include energy-services-related businesses, conservation services, and a full-blown menu of alternative services which modern customers typically want. We want to make sure that we are able to provide that range of services to sell with our total product.

Mrs. CHENOWETH. Mr. Robertson, what percent of our energy in the Northwest is coming from Canadian hydro, and what is the base rate when that comes into America?

Mr. ROBERTSON. That's a very good question, and I don't have the answer, honestly, off the top of my head. It is a small percentage in the Northwest, it's a relatively low price, and it is a competitor with Bonneville's. We do a lot of energy exchanges with Canada and, day to day, hour to hour, week to week, work to try to manage the Columbia River system, which you know is shared between the two countries.

Mrs. CHENOWETH. At one time, when it first really started coming in extensively, or even though it still is a small percent, I think they were bringing power in about 10 mills; does that sound right?

Mr. ROBERTSON. That sounds pretty low, but under certain conditions that can happen, particularly when hydro systems have large runoff years. On average that would be substantially below the market right now, even at the market we are talking about, for an extended period of time.

Mrs. CHENOWETH. It sounds more like a spring rate.

Mr. ROBERTSON. It is a significant issue. We see B.C. hydro as a partner and a very important additional element to bringing low-cost supply to Northwest consumers. The key question is, I think, reciprocity. If we allow energy sales in the Northwest, we would ex-

pect under FERC's ruling for Canada to allow us to potentially sell, as well as others in the Northwest, into the Providence of British Columbia or Alberta. And it's that reciprocity that I think is the keystone to the future relationship.

Mrs. CHENOWETH. I see my time is nearly up, but I can't help but ask, have we made much progress on direct PURPA hookups with the BPA system?

Mr. ROBERTSON. We are making—I am sorry; direct hookups with PURPA-related facilities?

Mrs. CHENOWETH. Yes.

Mr. ROBERTSON. We have not added directly PURPA projects to the facilities beyond that which other utilities have requested of us, and there are generating assets that are being built now, for example in Hermiston, Oregon. We are wheeling that power under arrangements of those companies, again in the part of the business where we provide transmission. The building of PURPA facilities has slowed considerably, given the resource surplus that is on the market right now and the prices of that surplus, which are historically low.

Mrs. CHENOWETH. Thank you, Mr. Chairman.

Mr. COOLEY. Doc Hastings?

Mr. HASTINGS. Mr. Brown, you're here, I think it's fair to say, representing the public utilities on this. I know you are representing a public utility. I'm not going to suggest that you speak for them. But do public utilities support the concept of separating BPA's generation and transmission?

Mr. BROWN. I think they generally support it. There is some question on who would manage the system, and how the benefits would accrue back to some of the rural areas, and the reliability of the system. But in general they do support some separation in Bonneville's generation and transmission.

Mr. HASTINGS. Is that a change in policy from the past with publics?

Mr. BROWN. I've not been involved with it that long, but I believe there are some changes, and public power is looking at changes in the industry and trying to move ahead and become more modernized as well. So I believe that's the case.

Mr. HASTINGS. OK. I'd like to ask this question of everybody, rather than get into the details of all the things that you are sorting out. But in general there certainly seems to be a mood in this country of not centralizing power in a wide variety of areas, in Washington, D.C., where it devolves back to the States and so forth. We have heard that a great deal.

In this Regional Review, maybe you are looking at this, I certainly hope you are, but do you think it's in our best interests in the Northwest, speaking as a Northwesterner, to have full control of our power resources, water resources, so that we can make the decisions here without having to trot back to the Congress to get an Act of Congress on whatever it may be, whether it is fish or you name it? Would each of you answer in general? Do you think it is in the best interest of us in the Northwest to have control of our resources? Let me put it that way in a very general way. Start with Mr. Carr, and we will work down the line.

Mr. CARR. Simply put, the answer is we do want regional control. I think we are better off having the region making the choices on how the river is used and in making the tradeoffs between fish and the other purposes. We strongly support the region taking that role.

Mr. BROWN. I would say it's in the region's best interest to keep control of our natural resources. I think it forces the diversified groups to work together and come up with common solutions so we can see progress in a number of areas. Fish and Wildlife would be one. The management of the Columbia River system is for the benefit of everybody. So, I would support that, and I think public power does in general support keeping the control in the region.

Mr. GOLDEN. I would generally support it with a few cautionary notes. One is there are genuine and compelling interests at stake on the part of the sovereign tribes of the Northwest, and they are clearly a government entity that need a say in decisionmaking.

And I think there are also important Federal interests at stake. The Columbia River system is a national and international asset. It was built largely by taxpayer investment, and the efficiency of its operation and its productivity over time depends on very tight coordination with another sovereign nation, Canada, and that's a function that I think the Federal Government has a compelling interest in. So a qualified yes.

Mr. ALEXANDERSON. I firmly believe there are huge net benefits from regional administration of the system. But the key to being—to not losing, though, is going to be an equitable sharing of those benefits. And that's going to be a challenge for the Regional Review.

Mr. HASTINGS. That's what the Regional Review is looking at. It seems to me that one ought to focus on those kind of things. They are?

Mr. ALEXANDERSON. Yes.

Mr. ROBERTSON. Historically there is a whole set of complicated laws that govern operation of the Columbia River, many of which directly relate to Bonneville as the entity that has substantial responsibility for the Columbia system. But one thing is clear from all of those laws. The region has designed the laws to essentially assure the benefits from the Columbia River remain principally in the Northwest. Everything from the Regional Preference Act to the way Bonneville manages its programs is designed to keep the benefit in the Northwest.

People in the Northwest understandably want to maintain, I think, on average, and over the course of time the resources of the Columbia River there.

Mr. HASTINGS. Thank you, Mr. Chairman.

Mr. COOLEY. Thank you Mr. Hastings.

Mr. Robertson, the Federal Energy Regulatory Commission recently released a rule which required open access for transmission facilities. As a matter of policy and practice, does Bonneville plan to follow this rule?

Mr. ROBERTSON. Yes.

Mr. COOLEY. Does BPA now contemplate entering into contracts committing Federal power beyond the year 2001?

Mr. ROBERTSON. We are, as I indicated, finalizing our contracts up to the year 2001 for public utilities, and we are also doing the same in California. We have preliminarily announced an arrangement with the Bay Area Rapid Transit Authority and also we are talking with other entities to enter into contracts through the century with them as well, 5-year contracts.

Mr. COOLEY. Under the current rate case, Bonneville proposed to adopt an entirely new kind of rate, the Firm Power Service Rate, FSP 96. This is a 10-year rate.

Mr. ROBERTSON. This is a rate for use in the region. We have not offered any product under that rate that exceeds the 5-year period, to my knowledge, and so we are trying to manage that rate within the context of the Regional Review.

But I might also say, Mr. Chairman, that contracts that we sign between now and the end of 2001 in order to secure our transitional stability for the region are typically designed so they could be passed on to some successor in interest if Bonneville were not the contractee and because of a decision by the region to change control. So whatever contracts exist typically are allowed to be passed on under successor in interest rules.

Mr. COOLEY. Well, the thing is our information shows that this Firm Power Service Rate 96 is a 10-year rate.

Mr. ROBERTSON. It is up to 10 years, but we have made a policy judgment to limit that so far in terms of our offerings.

Mr. COOLEY. But the case right now is only pending 5. I mean, if you have got a case before the Public Utilities Commission for a 5-year rate, and you are writing 10-year contracts, I don't understand that. I don't understand that process. So you will have to explain it to me.

Mr. ROBERTSON. The rate, which hasn't been finalized, I might add, because we are moving through the rate case, and we have only made preliminary decisions and will not make final ones until—

Mr. COOLEY. But you are offering those; is that true?

Mr. ROBERTSON. There is a 10-year FRS rate proposed. So prospectively it could go to 10 years, presuming after the Regional Review it is clear that that would be acceptable to the region based on the region's judgment.

Mr. COOLEY. We keep referring to this Regional Review process we are going through. When this review is done, will it be a review of the region, or will it be a review of Bonneville itself? I'm just curious. Bonneville Power Administration. I don't understand. We keep talking about Regional Review. What does this Regional Review really entail?

Mr. ROBERTSON. Let me just give my version of it since I'm not a member, and those that are can give a much more—

Mr. COOLEY. Do any of the gentlemen on the panel want to answer that? I don't really understand. When I read over all of the information we are provided here, it kind of eludes me what we are trying to accomplish in this Regional Review process. So if anybody would like to help me out here, I would appreciate it.

Mr. ROBERTSON. I would just say quickly, Mr. Chairman, that the Regional Review is looking at the entire electric energy business all the way to the end use consumer, that is to say homes,

and all the way back to the wholesale production systems that generate electric power.

I think the review has appropriately spent a lot of time on Bonneville because Bonneville is the dominant player in the wholesale power market. We do not play in the retail market, and therefore there are questions related to that market that are on the table as well. The region is undertaking a soup to nuts kind of review of the entire electric power business across wholesale and retail, along with the public benefits that have been provided in the past and what should happen with those benefits in the future.

Mr. COOLEY. Well, will Congress get a submission and will this committee get a copy of that review when it is finished? Who is in charge of the review process here? Anybody?

Mr. ALEXANDERSON. Well, let me speak to that. The four governors are in charge of the review process, and at a minimum I believe it will create a report to the governors.

But the initial charter to the review was not as specific as your question asked for a response. We spent quite a bit of time in the review debating really the scope of the charter. The review is broken into four groups now, and I'm a co-Chair of one of the groups, for example, which is looking at competition and customer choice.

And there is not universal agreement that the review, for example, should make recommendations about the pace and nature of legislative change to accommodate retail wheeling. I believe it's the function of the review, however, to identify the questions, look at the possible answers, and see how far we can go in getting consensus on those kinds of issues.

And so it may go so far as to make those kinds of recommendations, but it may not. I think that's yet to be seen.

Mr. COOLEY. Thank you very much.

Mr. DeFazio.

Mr. DEFazio. Thank you, Mr. Chairman.

Given my previous rounds of questions, does anybody have any reflections or comments about how we are going to pay for public purposes?

K.C., you want to address that?

Mr. GOLDEN. Sure. I appreciate the question. I appreciate my fellow panel members' commitment to those purposes, but I particularly appreciate the way the question focuses that commitment.

Jack said a few times that they have invested \$1.5 billion in efficiency. The more interesting number is the cost that they avoided through that investment, which, depending on how you calculate it, is roughly half the cost of other resources that were available at the time to acquire enough power to serve the city of Seattle. So the more interesting statistic is how much he didn't spend.

But I think the \$1.5 billion figure does point out the fact that energy efficiency is not free. It's just cheaper than the alternatives. So developing an appropriate way to pay for it in a competitive market is among our principal challenges in the comprehensive review.

I think broadly there are three sources that make some sense, and they are the three principal value-generating sources in the industry: the distribution system, the transmission system, and the generation system.

None of those should be ruled out. Currently for at least the public power community, the integrated power revenues, transmission and generation revenues, are used to pay for public purposes. How we do it in the future, I think we do not serve ourselves well by lumping them all together and saying how do we pay for this stuff.

Salmon recovery, for instance, I think by its very nature needs to stay in large measure a responsibility of the generation system where the problem in large measure is created. For energy efficiency and renewable energy resources, it is not at all clear that it should stay with the generation system, but we are looking at all those options carefully. I think the principle for sorting through them is obviously first and foremost equity, but second what can be done on a competitively neutral basis?

How can we make long-term investments that we agree are cost-saving investments for all consumers, without putting those supplier who make those investments at a competitive disadvantage? And that's the reason for a lot of examination of both the transmission and the distribution systems, which energy suppliers and energy users use independent of their choice of power supply increasingly.

So those are the kind of places we are looking.

Mr. DEFAZIO. Anybody else?

Mr. ALEXANDERSON. I would just add that without recommending it at that point, that the leading contender appears to be a form of system benefits charge or access charge levied on the distribution and/or transmission system. That seems to be the solution that's being adopted or acknowledged by FERC and left to the States in Order 888.

It is clear that if the commodity portion of the electric business is going to be competitive, and speaking only to those nonmarket costs which are not directly associated with the generation entities themselves, certainly the air quality and those things directly associated with generation could be captured through the commodity portion of the business.

We have to as a society collect for the other things somewhere else down the line, and there are not very many options. If taxes are not a viable option, then it's going to have to end up in the access or distribution charges somehow.

Mr. DEFAZIO. "Distribution" meaning distribution at what point? I mean, there is a theory here there are those who want to tack it onto individual meters and tell the individuals, here is your tax, you pay. And of course we are not calling it a tax. It's an assistance benefit charge to the individual customer.

There are others who are saying, perhaps we should put this on the transmission level so that the DSIs who have skated on all their other obligations might share in a part of this. Or others say we should put it on a wholesale level because the efficiency in the marketplace will come into effect, because if we put that on you, you can choose to pass it through to your customers, who you are now competing with Fly-by-night Power to give them their retail service in the brave new world. Or you can eat it, you know, lowering the value of your returns to your stockholders or whatever, and not pass it through individually to the customers.

So, it seems to me there are at least those three options out there. I don't know what you might prefer. I believe everybody should carry part of the burden. So I think if we are going to spin off transmission, that transmission should carry some part of these costs and benefits, because there are those in the region otherwise who are not going to pay a single red cent toward this even though they may have been principally involved in causing us to have the WPPSS disaster. That is just my impression.

Mr. BROWN. Public power is reviewing this issue, and currently they do not have a position to take on it, but they are looking at a wires charge on transmission, and I believe they are also looking at one on the distribution side and on the generation side. So they could take into account the independent power producers as well that may want to come into the market like you mentioned.

They are working on it. But it has not been finalized at this time.

Mr. DEFAZIO. OK. I'll look forward to your future wisdom.

Mr. COOLEY. Since we are on this power transmission thing, I thought Mr. Alexanderson might help me here. Do you use the Bonneville transmission system?

Mr. ALEXANDERSON. Yes, we are a heavy user.

Mr. COOLEY. Could you tell me what has happened over the last few years with your costs, if that is what we're looking at is some sort of equitable system to share the burden of this. What has happened to your costs over the last several years using that transmission system?

Mr. ALEXANDERSON. Transmission system costs have dramatically increased over the last several years. I should say transmission system rates that we pay to Bonneville have dramatically increased.

Mr. COOLEY. What does "substantial" mean? Does that mean 5 percent? 10 percent?

Mr. ALEXANDERSON. In excess of 20 percent at one point, and we've had what, three increases in the last five years. Rather than wing it, I can provide you a specific answer for the record that is unique to our company.

Mr. COOLEY. I don't want to put you on the spot, because I know you are under oath, but can you say generally that in the last couple of years the rates have gone up 30 or 40 percent, in that range?

Mr. ALEXANDERSON. Yes, yes. The last couple of rate cases it might be more like 3 years.

Mr. COOLEY. OK. In 3 years.

Mr. Robertson, have your transmission rates increased to all customers about that same amount over the last 3 years?

Mr. ROBERTSON. I would like to provide it for the record, but we have had increases in our rates, and as I indicated earlier, I think, to Mrs. Chenoweth, we have tried to stabilize those rates for the 5-year period as a result of the agreement we just struck.

[The following was submitted:]

TRANSMISSION RATES INCREASES TO ALL CUSTOMERS OVER THE LAST THREE YEARS

Bonneville develops rates for transmission service over the integrated network for bulk power deliveries within the Pacific Northwest and over the interties which connect the Pacific Northwest to California, Canada and the eastern Rocky Mountain area. The following table provides the transmission rate increases for fiscal year 1992-fiscal year 1996 for firm and nonfirm wheeling for Network and Southern Intertie transmission service which represent most of Bonneville's transmission business:

	Network service		Southern intertie service	
	Firm (\$/KW-mo)	Nonfirm (\$/KW-mo)	Firm (\$/KW-mo)	Nonfirm (\$/KW-mo)
Fiscal year 1992-1993	0.623	1.81	0.903	2.10
Fiscal year 1996	0.882	2.10	0.734	3.23
Percent increase (%)	42%	15%	-19%	54%

Therefore, the percentage increase in transmission rates depends upon the facilities used and the type of service provided.

Mr. COOLEY. But this is for all the people you service?

Mr. ROBERTSON. Yes. Remember relative to the transmission rates of other regions and similar systems—

Mr. COOLEY. I understand that. I'm just trying to get in my head some kind of value of what we are doing here.

For that increase in rate on the transmission, are we using those funds for any specific thing other than just a broad-base revenue source?

Mr. ROBERTSON. We're using those funds directly to expand the system and to operate and maintain the system to assure high reliability.

Mr. COOLEY. So, the generating part apparently is not sufficient to cover those other costs, so we have taken and reloaded the costs onto the transmission system?

Mr. ROBERTSON. Thinking of it as two different businesses for a second, the transmission business has an entirely separate set of investments from Bonneville, and it is repaid separately from the generation business that repays principally the costs of the dams and WPPSS costs.

So in looking at the transmission costs, what Bonneville does as there is demand on the system—and demand has increased very, very fast in the last 10 years because of the growth of the Northwest to keep the lights on and integrate and transmit power from new generating resources.

For example, from east of the Cascades Mountains, we are trying to expand the transmission system to meet growth and maintain one of the highest reliabilities in the country. This reliability assures that even under difficult circumstances, the winter lights stay on for folks. That does cost money. There has been an increase in our rates. But relatively speaking our rates are, we think, very competitive relative to other systems.

Mr. COOLEY. Has the cost of the transmission facilities over the last 3 to 5 years increased by 40 percent?

Mr. ROBERTSON. It has increased. I don't know the cumulative number off the top of my head, but I can get that for the record.

[The following was submitted:]

HAS THE COST OF THE TRANSMISSION FACILITIES OVER THE LAST 3 TO 5 YEARS
INCREASED BY 40 PERCENT?

No. The Federal Columbia River Transmission System (FCRTS) has an investment base of over \$3 billion and annual costs of over \$1/2 billion per year. FCRTS costs increased from fiscal year 1991 to fiscal year 1995, the most recent period that actual cost data was available, as follows:

	Transmission costs per year (\$000)		Increase	
	Fiscal year 1991	Fiscal year 1995	(\$000)	Percent
O&M	199,668	200,501	833
Interest	150,188	192,205	42,017
Amortization	70,930	125,789	54,859
Total	420,786	518,495	97,709	23

Mr. COOLEY. Thank you very much. I appreciate that.

Mr. Brown, I sort of get from your testimony that you have a lot of background information here. Do you really support the separation of BPA transmission and power marketing functions?

Mr. BROWN. I'd have to speak with the gentleman behind me to get some background on that, if it's all right.

Mr. COOLEY. OK.

Mr. BROWN. We do support the operation that is currently undergoing, and we are looking at further separation. Public power is discussing that, separating that transmission and their marketing.

Mr. COOLEY. There is a lot of talk about independent system operators.

Mr. BROWN. Uh-huh.

Mr. COOLEY. Do you think this is an appropriate tool for the Northwest, considering Bonneville in the picture?

Mr. BROWN. Depends on how many of the investor-owners that would come into the system operations under one entity. And I'm not sure if they're all willing to do that. And we have some concerns that they may transfer in high-cost facilities that need a lot of maintenance to bring them up to speed. So we have some questions on it, but it is definitely an issue that we are looking at.

Mr. COOLEY. Being someone who is not in the business you're in, what is a high-cost facility? What are you referring to there? Could you give me a definition of what that means? I would assume today with the new technology we have, that every system going in today to the private investment community is looking at only high-efficiency, low-cost systems. So, would you help me out a little bit when you say that?

Mr. BROWN. There's a lot of transmission out there that is well over 50 years old. Looking at some where I live, it has been in place for possibly over 50 years. They are changing out every other pole, so there are static wires going up and down. Every time you get a wind, it breaks and trips out the system.

Conversations within the State, one of the investor-owners has stated they are going to let their system go and go on the co-op's transmission lines because they don't want to upgrade theirs, and if they have an opportunity, they are going to move their trans-

mission over to the co-op. So we have some concern about that and how that would be placed under an ISO.

Mr. COOLEY. My time has run out. Thank you very much.

I think that concludes this hearing, gentlemen. The record will be open for 10 days. I have some questions I'm going to submit individually because we just can't get through all the things that we have to talk about, and I think other members of the committee have questions as well.

I appreciate all of you being here. I think your testimony was very informative. I've learned some things, and being new at this system, it was very helpful. I do appreciate it. Thank you very much. The committee is adjourned.

[Whereupon, at 11:55 a.m., the Subcommittee was adjourned; and the following was submitted for the record:]

STATEMENT OF JACK ROBERTSON, DEPUTY ADMINISTRATOR

BONNEVILLE POWER ADMINISTRATION

UNITED STATES DEPARTMENT OF ENERGY

BEFORE THE

SUBCOMMITTEE ON WATER AND POWER RESOURCES

OF THE HOUSE COMMITTEE ON RESOURCES

MAY 21, 1996

Introduction

Chairman Doolittle and Members of the Subcommittee, I am pleased to appear before you to discuss the Comprehensive Review of the Northwest Energy System (Regional Review). I am Jack Robertson, Deputy Administrator of the Bonneville Power Administration (Bonneville).

Today, I will briefly discuss the purpose of the Regional Review. I will then present at greater length the actions Bonneville has taken over the past year to create a more stable financial picture, while also focusing on Bonneville's historic public responsibilities.

Throughout 1995 and 1996, the West Coast has been undergoing a critically important restructuring process that likely will have profound implications for our region's economy and environment. Currently, the governors of the four Northwest states are reviewing important changes in the electric energy business brought about by this restructuring. These changes may affect everyone--Bonneville, public and investor-owned utilities, the Northwest environment and consumers throughout Oregon, Washington, Idaho, and Montana. Bonneville welcomes the review. Its purpose is vital--to assure that any change that occurs will create benefits for consumers and the environment of the Northwest.

Purpose of the Regional Review

The Regional Review will help to foster consensus on the best regional approach for addressing the transition from regulation to competition. The Governors' goal is to develop, through a public process, recommendations for changes in the institutional structure of the region's electric utility industry including the Federal power marketing function provided by Bonneville. The Department of Energy (DOE) believes that any changes should be designed to continue to serve important public purposes and assure that the costs and liabilities associated with the Bonneville system continue to be borne

by the beneficiaries of the Bonneville system. DOE agrees with the Regional Review Governors' December 14, 1995 letter, outlining the framework for the Regional Review, that "... by respecting our individual differences and building on our long tradition of regional cooperation, we can seize the opportunity change is providing and create a better energy future for the Northwest."

Bonneville has an "ex officio" representative on the Steering Committee of the Regional Review, Walt Pollock, Group Vice President, Marketing, Conservation and Production. Mr. Kyle Simpson, the Department of Energy's Associate Deputy Secretary for Energy Programs, is the Federal Liaison to the Regional Review, and is responsible for ensuring that there is a two-way exchange of views and information between the Administration and the Regional Review participants. This arrangement should enable the Regional Review to gain both the benefit of Bonneville's factual expertise and insight and the policy perspective of the Administration.

The task before us is a tall and complex order, and Regional Review participants have great latitude in developing their recommended changes.

Bonneville Actions to Achieve Financial Stability

Rapidly declining prices for alternative power supplies last year led to a crisis as Bonneville customers actively considered leaving the Bonneville system. Over the past year, Bonneville has taken a number of actions to reduce cost and create financial stability. Bonneville's financial stability will give the region the opportunity for making well thought out choices about its energy future.

- **Reduction in Rates**

Bonneville has announced the first in a series of key agreements with its wholesale customers that are expected to lead to a Northwest electric power and transmission

system that is more efficient, more stable, and more competitive--all good news for consumers. Based on Bonneville's draft Record of Decision, associated with the five-year rate period (fiscal years 1997-2001), released last week, the average Priority Firm rate paid by preference customers, would be reduced from the current 2.8 cents a kilowatt-hour to 2.4 cents a kilowatt-hour--a reduction of 14 percent for public utility customers. Bonneville's average Industrial Power rate would be reduced from the current 2.7 cents per kilowatt-hour to slightly under 2.3 cents per kilowatt-hour--a reduction of 16 percent. These figures are preliminary and Bonneville has not completed its final studies. The process to consider Bonneville's five-year rate proposal was initiated in July of 1995. We will make a final decision in June of this year.

According to Bonneville's preliminary risk analysis, there is an 80 percent probability of Bonneville making its United States Treasury (Treasury) payments in full and on time during the five-year rate period (fiscal years 1997 to 2001). A final decision on the probability will be made in June of this year.

- **Internal Management**

Bonneville just completed its third round of major cost-cutting in as many years. The first two rounds reduced Bonneville's projected operating expense levels for fiscal years 1996-2000 by about \$500 million per year from the \$2.8 billion average funding levels used for the fiscal year 1995 Congressional Budget. The last of these three major budget reductions, completed in March, reduced Bonneville's projected expense levels by roughly an additional \$100 million per year for fiscal years 1997-2001. In addition, expenses for fiscal year 1996 are being reduced by \$80 million, and fiscal year 1996 capital spending also is expected to be reduced.

Bonneville set a goal of reducing its FY1997 Federal Full Time Equivalent (FTE) staff levels by 500 from March 1994 planning levels of 3,755 FTE's. It already has reduced staffing levels by more than that planning target. This has been done by offering

voluntary separation incentives and through attrition. The Department of Energy (DOE) instituted a hiring freeze some time ago, meaning that virtually no external hires have occurred. In addition, Bonneville's fiscal year 1997 planning target includes a reduction in spending on contractor FTE by roughly 25 percent from end-of-fiscal year 1994 levels. We are well on the way to reaching that goal as well.

- **Direct Service Industry (DSI) Contracts**

In 1995, Bonneville secured loads and revenues from nine DSIs, most of which had looked elsewhere for alternative electric power supplies and could have taken their electric loads off Bonneville entirely after providing Bonneville with six months' to a year's notice. Bonneville retained 84 percent of the DSI firm load for the next five years, contingent on the results of Bonneville's current rate case. The contract is take-or-pay, which means that Bonneville will receive full revenues from these sales for five years regardless of industry fluctuations. The DSIs typically provide about one fourth of Bonneville's revenues.

- **Bonneville Funding of Endangered Species Act (ESA) Related Activities**

In 1995, two historic agreements were reached between the Clinton Administration and the Northwest Congressional leadership on Bonneville's fish and wildlife budget. The first agreement provided an estimated \$60 million annually to cover Bonneville expenditures for fish and wildlife on behalf of other project purposes. The second agreement provides for Bonneville spending on fish and wildlife averaging \$252 million per year, plus river operations to support fish migrations costing \$90 million to \$280 million per year. (It has frequently been referred to as \$435 million which represents the average annual projected cost.) This funding level was supported as adequate for ESA requirements and Northwest Power Planning Council (NWPPC) Fish and Wildlife Program measures by both the National Marine Fisheries Service and the chair of the NWPPC.

- **DOE Transmission Policy**

Bonneville transmission and access policies have historically been driven by its organic statutes. These statutes require that transmission system costs be equitably allocated between transmission users and Bonneville power transactions, that Bonneville operate its system to assure full cost recovery to protect the \$9 billion Federal taxpayer investment in the integrated Northwest electric power and transmission system, and that Bonneville provide access to others over available transmission capacity consistent with Bonneville's power marketing program.

The 1992 Energy Policy Act created a new regulatory scheme for transmission access and pricing. The transmission provisions of 1992 Energy Policy Act amended the Federal Power Act by granting new authority to the Federal Energy Regulatory Commission (FERC) to order transmitting utilities, including Bonneville and other Federal power marketing agencies, to provide wheeling services.

Bonneville is unique under the Energy Policy Act in that it is required to meet all of its existing statutory requirements as well as the requirements applicable to transmitting utilities. To the extent there are conflicts in these statutory requirements, the Energy Policy Act establishes an appeal mechanism to FERC.

Bonneville is moving as quickly as possible to implement Congress' support of competition in the wholesale electric industry. Bonneville initiated the early Pacific Northwest discussions on a regional transmission association and is a founding member of both the Western Regional Transmission Association and the Northwest Regional Transmission Association.

Prior to release of FERC's Notice of Proposed Rulemaking, Bonneville negotiated transmission comparability principles with its customers. Bonneville is currently taking action to assure that its transmission access and pricing policies are consistent with FERC

policies. Bonneville has initiated a formal regional hearing on its proposed transmission tariffs based on FERC's pro forma tariffs. At the request of Bonneville's customers, Bonneville has adopted provisions which go beyond FERC's tariff and which give up priority rights Bonneville could have asserted, such as Bonneville priority for hydro spill energy and priority for native load. The independent hearing officer has just ruled that Bonneville's tariffs not only comply with FERC policies, but exceed them in many respects. Consistent with our commitment to seek to comply with FERC policies, Bonneville and a majority of its customers, as well as the British Columbia Power Exchange Corporation, jointly proposed a five-year settlement of the transmission rates, terms and conditions that Bonneville would apply to the use of its transmission lines. If approved by the Bonneville Administrator, the agreements would go into effect October 1, 1996. The agreement also includes a proposal for implementing the current open access transmission requirements of the FERC under the National Energy Policy Act of 1992. The settlement is subject to approval, and, ultimately, by the FERC in October 1996.

Bonneville supports the October 4, 1995, DOE "Power Marketing Administration Open Access Policy." That policy commits the Power Marketing Administrations (PMAs) to facilitating market competition by publishing open access wholesale transmission tariffs and taking transmission service for themselves under those tariffs. Even though the FERC open access rulemaking does not directly apply to the PMAs, the policy statement commits them to develop transmission rates, terms and conditions which are comparable to those which will be required of FERC jurisdictional utilities, unless prohibited by law. Though the policy statement does reserve the right to assert a transmission priority for hydroelectric spill energy (which would be primarily Bonneville energy), Bonneville has eliminated any such priority from its proposed tariffs.

Bonneville is also complying with FERC's Standards of Conduct by separating rates, contracts, sales, and scheduling staff. We are accounting by business line. We have matched the industry in developing an Open Access Same Time Information System

(OASIS) information network for the posting of available transmission capacity and tariffs. These steps will be complete in October 1996.

- **Enhanced Ability to Downsize**

The fiscal year 1996 Energy and Water Development Appropriations Act includes language which allows Bonneville to offer voluntary separation incentives up to \$25,000. Bonneville has already completed reduction of 500 full time employees since 1994. Bonneville has also committed to additional staff reductions which this legislation will support.

- **Enhanced Ability to Market Excess Power**

The fiscal year 1996 Energy and Water Development Appropriations Act also includes language which allows Bonneville to sell excess Federal power outside the region for up to seven years. Bonneville has initiated a rulemaking to define the implementation of this provision which we expect to complete next month. Bonneville believes this authority can lead to increased revenues which would improve Bonneville's probability of making its planned Treasury payment.

- **Load Commitment**

Bonneville is currently negotiating five-year amendments to existing power sales contracts, and new five-year power sales contracts with its public utility customers. The goal of these contract provisions is to create a win-win situation that benefits customers and Bonneville while reflecting the evolving electric industry. Customers will receive five-year rate certainty and five-year stranded investment protection while also gaining certainty about their ability to take a portion of their load off Bonneville. In return, Bonneville will receive enhanced certainty with respect to the revenues public utility customers provide. Bonneville is responding to customer ideas by offering an increased variety of options.

Bonneville and its customers recently agreed to a proposed partial settlement of the Bonneville rate case which was adopted in Bonneville's draft Record of Decision, thereby establishing the average price level customers would pay for power under the load commitment contracts being negotiated.

- **Debt Buyout**

As this Committee is well aware, in April 1996, Congress passed and President Clinton signed into law legislation to refinance Bonneville's outstanding appropriations owed to the Treasury. This Appropriations Refinancing Act is included as Section 3201 of The Omnibus Consolidated Rescissions and Appropriations Act of 1996, Public Law 104-134. This Act puts an end to recurring repayment reform proposals that would have raised electric rates and created economic uncertainty in the region. The plan takes effect with the 1997 fiscal year which begins October 1, 1996. The plan will also increase near-term cash flow to the government and, according to the Congressional Budget Office, reduce the Federal deficit by about \$89 million over the next seven years. Bonneville appreciates the support this Committee provided for this important legislation.

Bonneville believes the combined effects of these actions will be to stabilize revenues and allow Bonneville to make the near-term transition from regulated to competitive wholesale power supply markets. Achieving financial stability reduces the risk that significant long-term decisions will need to be made in a period of financial crisis.

Objectives for the Regional Review

Historically, Bonneville has distributed the benefits produced by the Columbia River Basin's hydropower system throughout the region to provide a balance in economic and environmental benefits consistent with the values of the people of the Northwest. However, as competition has led to lower prices for alternative power suppliers, it also

has raised questions about the role Bonneville should play in the new competitive marketplace.

Bonneville is open to and prepared to change to serve the citizens of the Northwest. DOE believes the following strong Federal interests should be considered by the Regional Review:

- Serve important public benefits purposes: First, regardless of the ultimate structure that is adopted for the federal power system, it is essential that this system continue to serve important public purposes such as providing reliable and affordable power to Northwest homes and businesses, funding fish and wildlife recovery efforts, and supporting energy efficiency and renewable technologies. DOE is pleased that the “guidance document” outlining the goals, scope and procedures for the review embraces these public purposes.
- Costs and liabilities borne by the beneficiaries: Second, it is critical that the costs and liabilities associated with the Bonneville system, including the Washington Public Power Supply System and Federal Treasury debt, continue to be borne by the beneficiaries of the Bonneville system. Federal taxpayers have a \$9 billion investment in the Northwest hydroelectric system which was made with the expectation that it would be repaid with interest. If the Bonneville structure is to be altered, the region must ensure that it does not prevent taxpayers from receiving the expected return of their investment. As Congress and the Administration struggle toward a balanced budget, it will not be realistic or fair to ask Federal taxpayers to bear additional burdens.

Bonneville Actions During the Regional Review

Bonneville can manage its current activities in a fashion that does not foreclose options for the Regional Review, but also does not bring activities to a halt, creating financial instability. Bonneville is committed to seeking to conclude its rate case, load commitment contracts with public utility customers and accomplishing an administrative functional unbundling of transmission and generation. In addition, Bonneville is seeking the revenues and cost cuts necessary to deliver on the assumptions embedded in the rate case which allowed rates to be decreased for public utility and DSI customers, while maintaining a high probability of assuring Treasury repayment.

The Regional Review process is the primary focus for policy development regarding long-term, Federal Power Marketing activities in the Northwest, including alternatives for different future structures of the industry. During the course of the Regional Review, Bonneville is focusing on establishing the customer relationships and achieving the business results necessary for system financial viability between now and 2001. The load commitment efforts currently underway are the centerpiece of this approach.

While these are the primary focus, Bonneville's activities will continue to include commercial activities, potentially extending beyond 2001 in a number of areas. None of these activities will foreclose policy positions under discussion in the Regional Review. Examples of these types of ongoing, commercial activities include:

- Sales to utilities serving New Large Single Loads locating in the Northwest where offers extending beyond 2001 are necessary to secure the near-term business.
- Sales of excess Federal power outside the region, for up to seven years, under the provisions of the fiscal year 1996 Energy and Water Development Appropriations Act, following the completion of the rulemaking process.

- Long-term system coordination agreements such as the renegotiations of the Pacific Northwest Coordination Agreement.
- Transactions associated with the return of the Canadian Entitlement which begins in 1998.
- Actions in response to Hungry Horse Dam Act 43 U.S.C. § 593, as amended, regarding reservation of power for certain long-term needs within the State of Montana.

Conclusion

The changes in the electric energy business brought about by deregulation will impact everyone--Bonneville, public and investor-owned utilities, the Northwest environment, and consumers throughout Oregon, Washington, Idaho, and Montana. Bonneville welcomes these changes and is an active participant. Its purpose is vital--to assure that change will create even greater benefits for consumers and the environment of the Northwest.

Even without the Regional Review, change is inevitable. The new deregulated and highly competitive market puts clear limits on the benefits Bonneville can provide and could constrain how it meets its responsibilities. Now that Bonneville customers can move to other energy suppliers, Bonneville no longer can raise rates to accommodate the costs of increased benefits. To the extent the region values certain benefits, it will have to ensure that whatever structure it chooses for its electricity system, it can provide the benefits the people of the Northwest say are important to them.

Fortunately, the region has a remarkable history of rising to the challenge of change. The region faces that challenge again. It now has the opportunity to make the kind of lasting contribution that will preserve a unique and enviable way of life for future generations.

Mr. Chairman, this concludes my statement. I would be pleased to address any questions from the Committee.

**Testimony of
Al Alexanderson, Senior Vice President and General Counsel
Portland General Electric Company
before the
Subcommittee on Water and Power Resources
of the House Resources Committee
May 21, 1996**

Mr. Chairman, Members of the Committee, I appreciate the opportunity to testify this morning for Portland General Electric Company; and as part of the Northwest IOU's. I am a member of the Steering Committee of the Comprehensive Review of the Northwest Energy System. I am a lawyer by-training but have spent the past 24 years in the electric utility industry in a variety of capacities, currently serving as Senior Vice President and General Counsel. From 1988 to 1990 I was President of a subsidiary called PGX which was the first power marketing affiliate of a U.S. electric utility. Although that venture was short-lived it was at the forefront of what now has become a highly competitive and robust electric marketing industry.

Mr. Chairman, I have submitted for the record a presentation which I gave earlier this year to the Western Electric Power Institute. It is my version of the key policy questions and answers given my private utility perspective. I will not elaborate on that presentation now. But I will certainly answer any questions you and others may have on issues such as transmission access,

industry restructuring, and the competitive environment overall. For the moment, however, I would like to set aside the technical issues and speak about process:

o First, although a lot of work remains, the Regional Review process has already achieved a “critical mass” of open and honest dialogue among the parties in the region. I know you’re aware of how difficult yet important this initial step is in a multilateral negotiation process.

o Second, I believe the Regional Review process has gained sufficient “momentum” to carry through with the difficult charter it was given. It will take time and may not meet every deadline, but the momentum is there and we hope that Congress sustains that momentum when we forward our recommendations.

o Finally, the Regional Review process has “history” on its side. The electric utility industry is an extremely complex fabric of economics, engineering, social policy and politics. Contrary to popular belief, however, change in the industry is not new.

Since the turn of the century the electric utility industry has adapted frequently to meet changing social needs. From transmitting electricity long distances from remote dams to city businesses in 1889 -- developing and marketing

toasters and washing machines in the 1920's --- rural electrification in the 1940's and development of renewable and clean burning energy sources in the 1970's and 80's --- the electric utility industry has been VERY closely aligned with our economic growth and evolving social needs. That is not going to end. Rather a new adaption is in the making.

The Regional Review Process is part of that century of change *but in this instance Congress and the regional Governors did not have the confidence that Bonneville could steer this change in the best interests of everyone in the region. That is because the question is not "what should Bonneville be allowed to do?"; it is "what does our society want and expect from the power industry and what is the best set of rules and institutions to meet those needs?"* Let me illustrate with some examples:

- o Electric customers want to diversify their electric loads to alternate energy providers and almost universally are calling for BPA to be prohibited from building or acquiring new energy resources. Even rural electric customers now have choices that weren't available to them five years ago.

- o Transmission customers in the region want those services segregated entirely from BPA's energy product lines and want assurances that their transmission rates are not cross subsidizing fish and wildlife programs that should be paid for by generation customers.

o Fish and wildlife advocates have become disenchanted with BPA's programmatic track record and are looking for ways to stabilize the revenue stream that go into fish and wildlife programs.

o Conservation and renewable advocates who applauded BPA's commitment to alternative resources a decade ago are now seeing that commitment wither under the pressures of competition.

o As a U.S. Taxpayer helping to carry the nearly \$15 billion debt on Bonneville, I'm worried each time BPA ventures out into new areas -- such as the WPPSS nuclear plants, or Tenaska gas-fired turbines -- they do so without the discipline of market economies governing the experiment.

Mr. Chairman, I know the Congress is looking to the Regional Review for timely guidance. Citizens in the Northwest are looking to Congress for three things:

First, in the short-term we need Congress to assure that BPA's transmission system is operated as a separate business unit from its power business and is managed in a way that benefits not just BPA but all electric customers in the region who rely on that system. For the economic benefits of falling electric prices to flow all the way to electric customers we need an open, non-discriminatory and unencumbered transmission system, **NOW**.

We cannot afford a Federal Highway where only the Federal trucks get through.

Second, we need Congress to assure that during the Regional Review process BPA will not engage in any new business activity or sign any long-term sales or service contracts beyond the year 2001, which is the planning horizon of BPA's own pending rate case. If BPA is allowed to engage in risky new business ventures, and long term sales, without specific authorization or prior approval of the Congress, it will undermine the integrity of the review process and potentially preempt options which Congress may consider next year for reform or restructuring BPA's activities.

Third, once the Regional Review process has submitted its recommendations, we need Congress to act quickly. Nowhere in the country -- except in the Pacific Northwest -- does the federal government own 40% of the power market and 80% of the transmission system. I am not predicting what will come out of the region and expect to support whatever collective decisions are made. But what I can tell you is that legislation of some kind is needed to assure that all electric providers are playing by the same rules and that customers who chose one provider over another do so because they have a lower cost, higher quality product. NOT because they were given special privileges.

Again, thank you for the opportunity to testify. I welcome any comments or questions you might have.

Testimony of K.C. Golden

before the

Water and Power Resources Subcommittee of the
Committee on Resources of the
United States House of Representatives

May 21, 1996

Mr. Chairman, members of the Subcommittee, my name is K.C. Golden. I serve on the Steering Committee for the Comprehensive Review of the Northwest Energy System. Prior to becoming an energy consultant, I served as Executive Director and Policy Director of the Northwest Conservation Act Coalition, a regional alliance of public interest groups and utilities dedicated to the successful implementation of the 1980 Regional Power Act.

Thank you for your interest in the region's deliberations on the future of the Bonneville Power Administration, and for soliciting my views on those deliberations. I'd like to begin by calling your attention to some noteworthy differences between our regional dialogue on electric power industry restructuring and the dialogue under way in other parts of the country.

Unlike many other electric industry restructuring proceedings, the Comprehensive Review was preceded by a number of actions on the part of the Bonneville Power Administration and its customers that presumed certain outcomes to the restructuring debate before the debate had formally begun. Some of the most important questions before us may have been answered before they were properly posed.

Nevertheless, the Comprehensive Review is in many ways a more thoughtful and far-sighted approach to industry restructuring than we are seeing elsewhere in the nation. California's restructuring process began with that State's regulators issuing a wide-ranging but poorly conceived proposal that touched off nearly two years of bitter controversy before yielding any results. Even today, those results are at best mixed and uncertain in terms of their effectiveness in promoting competition, reducing costs, and serving the public interest. In contrast, the Northwest has begun a thoughtful dialogue with the express intent of delivering a working regional consensus prior to the initiation of major legal and regulatory changes.

The Comprehensive Review of the Regional Energy System is as ambitious as its name implies. The issues are complex and contentious; the stakes are high; and time is short. But fortunately, our regional deliberations begin from a strong sense of first principles. The region's Governors and the Department of Energy initiated the process with an unambiguous charge to deliver on many of the same principles that Congress articulated in the Northwest Power Act of 1980, including:

- Meeting the energy service requirements of a growing Northwest economy at the lowest economic and environmental cost;
- Capturing cost-effective energy efficiency and renewable resources;
- Fair distribution of the costs and benefits of the regional power system ;
- Informed public involvement in energy resource decisions;
- Investment in the long-term biological and economic productivity of the Columbia River System.

Changes in the structure of the electric power industry will require new methods to attain these goals, but the region's commitment to their achievement remains solid.

In addition to these first principles, the Comprehensive Review begins with the advantage of a proud tradition of regional cooperation, mutual respect for the variety of interests at stake, and a healthy appreciation for the magnitude of the task.

The challenge is formidable, but our determination to deliver a working regional consensus on the future of the Northwest energy system is strong. The region's commitment of time and energy to the process has been extraordinary. The good faith of the Steering Committee members is absolutely genuine. And our motivation to succeed could hardly be greater. The economic and environmental productivity of the Columbia River System is the lifeblood of the region. If we are to continue to enjoy this productivity, we must move decisively to guarantee full, timely repayment of the Federal taxpayers' investment in the system as the power industry restructures. We must act quickly to ensure fair distribution of the system's costs. We must establish an equitable and efficient way to make investments that protect and enhance the system's long-term productivity, as we have so successfully in the past.

While our commitment to the regional process is genuine, each of the parties is acutely aware that we are not the ultimate decision-makers. Our commitment can only be as strong as the commitment of those, notably Congress, who will act upon our product. There is always a temptation to short-circuit the arduous process of building a regional consensus. I hope you will help us resist that temptation. Your support for the region's effort to develop a fair consensus will improve its prospects for success immeasurably.

I will not delve into the specifics of the Comprehensive review, but I would like to touch very briefly on a few of the key substantive issues that we must resolve.

Ultimately, our success in restructuring the Northwest energy system will be measured by how clearly and firmly we draw the distinction between cost-reduction and cost-shifting. The benefits of competition lie in its ability to lower costs by inducing real efficiencies in the system. But competition can only achieve that goal if it is structured to guard against unfair and opportunistic shifting of costs. If we can avoid incurring higher costs by choosing a more efficient, lower-cost power supplier, then we will achieve genuine cost reduction. But if we merely transfer costs that have already been incurred, we will have achieved nothing of value. Notwithstanding this Congress' strong commitment to market forces, I suspect that you will take a dim view of "competition" if it becomes an excuse for shifting the region's nuclear debt from regional consumers to federal taxpayers. As consumers, we all want choice. But we cannot usher in an era of choice by failing to pay for the choices we already made.

Just as we must ensure a fair way to pay for past investments in the system, we must also develop an effective way to allocate the costs of future investments that lower the cost of energy service over the long run. Indeed, the foundation of the region's energy system and its economy was built by investments that could not have been had they been constrained by the short time horizons imposed upon individual sellers and buyers in a competitive market. Some long-term investments turn out well and some do not. But the capacity for long-term investment and the planning functions that help us use that capacity wisely must not be casualties of the restructuring process.

Another key measure of our success will be the extent to which energy system restructuring is accompanied by an efficient, comprehensive, science-based approach to salmon recovery in the Columbia Basin. Too much money has been wasted and too many salmon stocks are on the brink of extinction. We need not and cannot accept the dismal choice between affordable power and healthy salmon stocks. The power system and the fish need the same thing: a single, clear, well-managed salmon recovery plan that gets the job done at a reasonable cost. The moment when we restructure the energy system in the Northwest is precisely the moment to ensure that we put such a plan in place.

Finally, I want to say a brief word about the role of the Bonneville Power Administration in the restructured industry of the future. Public institutions are now facing a vigorous and healthy challenge to both their missions and their efficiency in accomplishing those missions. We should question whether BPA as a public entity is involved in enterprises which are better left to private entities in the marketplace. But, having better defined BPA's public enterprise, I hope we will affirm BPA's ability to move forward in an enterprising fashion. Like successful businesses, public institutions should be responsive, innovative, and entrepreneurial. I believe that the region's and the taxpayers' best interests will be best served not by neutering BPA, but by redirecting its energies toward an appropriate, contemporary public mission. If BPA's in the wrong business, then let's get it out. But, having determined the right business for BPA - the business that best serves the public interest - then let's be sure it has the tools and the mandate to succeed.

Thank you once again for your interest in the Comprehensive Review. I hope you will support our effort to restructure an energy system that works for future generations of Northwest citizens and U.S. taxpayers.

**Testimony
of
Richard J. Brown, General Manager
of the
Ravalli County Electric Cooperative
before the
House Resources Water and Power Subcommittee

Washington, D.C.
May 21, 1996**

Mr. Chairman, I am pleased to testify today on the progress of the Comprehensive Regional Review of the Northwest Energy System. The Regional Review was convened in January, 1996, by the governors of the four Northwest states to address the changes occurring in the electric power industry and to recommend appropriate policy directions for our region. The review is scheduled to deliver its report to the governors by the end of the year. The review is being managed by a steering committee of approximately 20 members, representing a broad cross section of interests in the region. Presently, four work groups are meeting to discuss various aspects of the utility industry in the Northwest to determine if consensus recommendations can be crafted. These work groups are: transmission; federal power marketing; conservation, renewable resources and public purposes; and, competition and customer choice.

Background

Across the nation we are observing dramatic changes in the electric utility industry. These changes are similar to those that occurred in other deregulated industries, including airlines, telephones and natural gas. The changes are similar but not identical. For example, how will transmission services be priced? Which retail customers will have direct access to wholesale markets and when? How will traditional "public purposes" of the electric power system be handled in the competitive future? Will stranded investments be created and how might the region or the four Northwest states deal with any stranded investments? In the Northwest, just as the rest of the country, these issues are also very important. In addition, the Northwest has a number of issues that are particular to this region. What should be the role of BPA in a competitive market? How does the region assure the repayment of the BPA debt as wholesale markets become increasingly competitive? Where should conservation and renewable resource responsibility reside in the new utility environment? These questions are unique resulting from BPA's traditional role in the region.

Fifty percent of the power in the Pacific Northwest has historically been supplied by the Bonneville Power Administration. BPA markets the hydro power produced at hydroelectric dams by the U.S. Army Corps of Engineers and the Bureau of Reclamation and the output of the nuclear plant produced by Washington Public Power Supply System. BPA also owns 80 percent of the high voltage transmission facilities within the region. Due to BPA's access to low cost hydroelectric power the region has had the lowest price power in the nation and BPA has been among the lowest price suppliers in the region. Today that is changing. BPA is faced with many of the same pressures affecting utilities in the rest of the country. Due to open access, low natural gas prices and large amounts of surplus electric generation capacity in the West, BPA's utility customers and their industries are being offered power at lower prices than BPA can provide. BPA has been working for several years to cut its costs and reduce its rates to be more competitive. However, today many power suppliers' prices are even lower than BPA's proposed rates.

Many things contribute to BPA's difficulties. Nuclear costs, federal debt and other commitments entered into many years ago must be paid. Programs that imposed costs but did not produce revenues such as conservation and the residential exchange, also contributed to BPA's difficulties. Fish and wildlife costs of the Northwest hydro system also were a contributing factor. Many believe that the competitive power market can no longer support full funding for all of these types of programs. The question thus becomes, if the market cannot support these programs, should these social objectives be pursued and who will fund them? Public power supports a vibrantly competitive bulk power market in the Northwest. We also believe BPA is an essential player in the Northwest, and believe the two, BPA and competitive markets, are mutually dependent.

The Comprehensive Regional Review

Last year, at the urging of the Department of Energy, Congress and many individuals and groups within the Northwest, the governors decided to convene a comprehensive review of the Northwest energy system. The primary goal of the review is to see if we could maintain an affordable, reliable power system, agree on the set of issues which were the most critical for the energy future of the region and recommend the best ways to resolve them within the region. The review is being managed by a steering committee, appointed by the four Northwest governors and is chaired by Chuck Collins, a former member of the Northwest Power Planning Council from Washington State.

Since January the regional review steering committee has examined the experience of other deregulated industries and attempted to learn the way that electric deregulation

has been handled in other locations. These discussions have helped steering committee members to develop a common understanding and lexicon for analyzing the issues. In late March, the steering committee defined four working groups to begin in-depth analysis of the issues. Members of the steering committee serve as co-chairs of each work group and the work group meetings are open to all who are interested in participating.

Transmission

The transmission work group is looking at a number of technical issues relevant to the possible restructuring of the Northwest transmission system. In conjunction with the Northwest Regional Transmission Association (NRTA), the review has been examining various ways of pricing a region-wide transmission tariff. Various proposals for separating BPA's generation and transmission functions are being analyzed along with the appropriateness and possible scope of an independent system operator to coordinate transmission operations in the Northwest. Additionally, the review has been looking at the effects of establishing a single pool for all electrical transactions in the Northwest, and the effects of adding certain non-transmission costs to transmission charges.

While the technical work on these issues is still underway, it is safe to say that public power supports some degree of separation between BPA's generation and transmission functions. Work will also be done on developing an independent system operator or other organization that relies more on coordination than on centralization, because considerable skepticism has been expressed within public power on the desirability of an independent system operator with highly centralized responsibilities. There also seem to be problems with collecting non-transmission costs on the wires. If these cost adders are imposed, there is a real risk that additional generation will be installed close to load centers in order to avoid paying these charges. This means that the more charges that are placed on transmission, the less the system will be used, with consequent decreases in transmission revenues and increased costs.

Federal Power Marketing

This work group is examining the issues as they relate to BPA and its role in the region. The power marketing work group has focused on preferred futures for the power marketing functions of the Federal Columbia Power System. The group developed a set of consensus objectives for the federal power system. This list of objectives is included as Attachment 1. The federal power marketing work group is now developing alternative structures for the federal power marketing function. Work group participants were

invited to submit proposals. Nine different proposals were put forward. The Public Power Council staff, for example, developed an option that retains many aspects of the current system. Our option preserves federal ownership and public preference rights with changes that reflect the new realities of the competitive power market. These changes include:

- Disaggregation of BPA's power and transmission functions
- Elimination of BPA's *obligation* to serve load growth
- Shared governance structures among BPA and its customers
- Freedom of entry and exit by customers and new power suppliers
- Freedom to pool and resell federal power

Other individuals and groups have suggested alternatives that include customer ownership of the power system under various allocation and auction models. Each alternative will be evaluated using common criteria. At this juncture, it is too early to endorse or disqualify any option.

The work group is also analyzing the effects of these different proposals on BPA's existing Treasury debt and its net billing obligations to the Washington Public power Supply System. The power marketing work group is working toward a consensus proposal that will be forwarded to the steering committee in July.

Conservation, Renewable Resources, and Public Purposes

This work group has drawn over 160 participants representing a wide range of interests. Discussions to this point have focussed on developing a consensus set of goals for conservation and renewable resources. The draft goals are included as Attachment 2.

In addition to goal-setting, the group has heard several proposals for accomplishing conservation objectives in a competitive utility future. Some of the mechanisms address funding for conservation, others address focusing the responsibility for conservation on the consumers who benefit from the conservation directly. The proposals range from a strictly market-based approach to conservation charges levied at the transmission or distribution level. For renewable resource development, a portfolio approach is being discussed. Public power is working to define a method of addressing

conservation and renewable resource development in the future and will be presenting it to the work group this week.

The group was also tasked to quantify the costs and benefits of other broad-based public purposes such as irrigation, navigation, flood control, and recreation. This task is very difficult to pin down but a small sub group is working on developing estimates.

Competition and Customer Choice

The competition work group is tasked with making recommendations about how customers might have direct access to competing power suppliers. There is a lot of concern about the issues raised by this group and a fair amount of controversy. There are, however, some areas of agreement among the participants. These include:

1. Transmission should be open to all wholesale transactions;
2. Transmission should be separated from generation and from distribution;
3. If there is retail access for one customer group, there should be timely retail access for all customer groups;
4. There are a number of issues about the timing of direct access that will need to be worked out, but, in general, customers from one market segment should not be forced to wait too long while others are permitted market access; and
5. Some mechanism for protecting the smallest customers may be needed and the distribution utility may need to be the supplier of last resort.

The work group believes that its efforts are beneficial in developing a common understanding of the issues involved in retail competition. The work group is also hoping to be able to add to the understanding of competition issues in the region and nationally. The group is preparing to submit consensus recommendations to the steering committee in July.

Status of the Review

At this point, public power is pleased with the process of the regional review. Approximately 800 people have participated in the review either by attending the public

meetings and expressing their concerns, participating in the various work groups or keeping up through the Internet. A background public information piece is available for groups to mail to their members and a communications plan is in place. BPA, utilities, industries, interest groups and others are participating. The process is moving according to an ambitious time frame which has the work groups preparing their consensus reports and forwarding them to the steering committee by early July. The steering committee will then develop its report. Once the report is drafted, public hearings will be held to solicit comments and, after revisions, the report will be finalized and submitted to the Governors. We expect that the report will recommend changes in both state and federal statutes.

We are pleased with the interest of the committee and we look forward to working with you in the future as the region attempts to implement the recommendations from the regional review.

Thank you for the opportunity to testify before this subcommittee.

Federal Power Marketing Work Group
Proposed Objectives for Evaluating Alternative Models

NOTE: The order is not important.

1. There is a fully competitive bulk power market available to all customers in the region, facilitated by open-access transmission.
2. Promotes freedom of action by customers.
3. Future risks and benefits of federal power marketing rights are commensurate and they accrue to those customers who elect to assume those risks and benefits.
4. No increased risk to the taxpayers, with equivalent probability of Treasury payment, and security of outstanding bonds.
5. Continued benefits of coordinated river operations, for both power and other purposes.
6. The proposed model has the potential to gain acceptance by most constituent groups and will be relatively easy to implement (i.e., if legislation is necessary, modest legislative changes are preferred over substantial changes).
7. During the transition to the competitive market, there are no major involuntary cost shifts among user groups.
8. Compatible with regional solution for transmission.
9. Existing contractual rights and obligations are preserved, assigned, or changed only by mutual agreement.
10. Compatible with regional solution for public purposes.
11. Flexibility and robustness of solution to respond to future conditions.
12. Responsive to public policy concerns.
13. The system's reliability will not be harmed by the transition to a competitive bulk power market.
14. The region will have first priority for the benefits of the existing power system.

ATTACHMENT 1
Testimony before the House Resources Water &
Power Subcommittee - May 21, 1996
Richard J. Brown, Ravalli County Electric Cooperative
(Page 1 of 1)

PUBLIC PURPOSE GOAL: TO ASSURE THAT THE POWER SUPPLY SYSTEM OF THE PACIFIC NORTHWEST REFLECTS THE VALUES AND MEETS THE NEEDS OF ITS CITIZENS.

This system should provide energy services that are:

- Adequate, Diverse and Reliable,
- Economical and Efficient,
- Environmentally Responsible and Sustainable; and,
- Consistent and Compatible with a Competitive Market.

These services should be provided in a manner which:

- Provides for public participation and consultation in energy resource decisions,
- Enhances the viability and competitiveness of the Northwest economy,
- Minimizes the total life-cycle costs of energy services, including environmental and other social costs; and,
- Maximizes consumer choice.

CONSERVATION GOALS AND OBJECTIVES

1. Minimize the total cost, including risk and adverse impacts, of energy services to individuals.
2. Rely, where possible, on market forces to accomplish cost-effective conservation.
3. Facilitate the action of market forces. Among the means of doing so are:
 - getting the price signal right, including reflecting externalities;
 - maintaining a viable energy efficiency industry;
 - providing consumers with education and information on efficiency; and,
4. Identify areas where market outcomes deviate from socially desired outcomes.
5. Market intervention, where appropriate, should be done in a manner which:
 - is as competitively neutral as possible;
 - is targeted, simple, and efficient;
 - has the flexibility to adapt to changing circumstances;
 - maintains the benefits of local decision-making and action, while encouraging regional cooperation; and,
 - links costs and benefits (or damages) as directly as possible.

ATTACHMENT 2

Testimony before the House Resources Water &

Power Subcommittee - May 21, 1996

Richard J. Brown, Ravalli County Electric Cooperative

(Page 1 of 2)

RENEWABLE RESOURCE GOALS AND OBJECTIVES

1. Minimize the total cost, including risk and adverse impacts, of energy services to individuals.
2. Preserve renewable resources as a long-term option and encourage their development.
3. Maintain and enhance the capability to develop renewables by:
 - developing a characterization of the region's renewable resource base;
 - assuring that renewable resource potential is considered in all land-use decisions;
 - investing in the demonstration of pre-commercial renewable resources; and,
 - honoring the region's contractual and quasi-contractual commitments to renewable projects entered into pursuant to the Council's "Renewable Resource Confirmation Agenda."
4. Rely, where possible, on market forces to accomplish cost-effective renewable resource development.
5. Facilitate the action of market forces. Among the means of doing so are:
 - getting the price signal right, including reflection of external costs;
 - assuring non-discriminatory access for renewables to transmission and federal hydrosystem firming capability;
 - providing market participants with "green power" options.
6. Identify areas where market outcomes deviate from socially desired outcomes.
7. Market intervention, where appropriate, should be done in a manner which:
 - is as competitively neutral as possible;
 - is targeted, simple, and efficient;
 - has the flexibility to adapt to changing circumstances;
 - maintains the benefits of local decision-making and action, while encouraging regional cooperation; and,
 - links costs and benefits (or damages) as directly as possible.

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ATTACHMENT 2
 Testimony before the House Resources Water &
 Power Subcommittee - May 21, 1996
 Richard J. Brown, Ravalli County Electric Cooperative
 (Page 2 of 2)

Testimony by

John D. Carr, Executive Director,
Direct Service Industries, Inc.

before the

Subcommittee on Water and Power Resources

Washington, D.C.

May 21, 1996

Introduction.

Good Morning Chairman Doolittle and members of the Subcommittee. My name is John D. Carr and I am the executive director of Direct Service Industries, Inc. I appreciate the opportunity to address the Subcommittee on the evolving role of the Bonneville Power Administration in the Pacific Northwest and the Comprehensive Review of the Northwest Energy System.

Direct Service Industries, Inc. represents eight major companies in Washington, Oregon and Montana. These companies produce aluminum and chemicals. Together, they account for about 40 percent of the nation's aluminum production. They employ roughly 10,000 people and contribute over \$2 billion every year to the Northwest economy through wages, taxes and purchases.

Historically, the direct service industries have purchased the bulk of their electric power from Bonneville and have represented one-fourth to one-third of Bonneville's sales and revenue. However, as the regional energy market rapidly evolves toward a more competitive market, alternative suppliers -- including investor-owned utilities and independent power marketers -- are becoming very competitive. In response to changes in the market, some DSIs have shifted portions of their load to other suppliers -- as have other Bonneville customers. This change in our historical relationship with Bonneville is just one of the many changes the region will experience as we move to a deregulated, fully-competitive wholesale energy market.

Bonneville Power Administration.

The Bonneville Power Administration was established during the depression to market the electrical power produced at multi-purpose hydro facilities developed by federal government in the Columbia River Basin. Over the years, the federal government expanded the federal hydro power and transmission systems until, by the mid-1970s, Bonneville operated a large, world class, low cost power supply system that has contributed greatly to the economic development of the Pacific Northwest.

Since then, several federal policy choices have significantly raised the costs borne by the federal power system. These costly policy choices include: the financial backing of nuclear projects that the federal government did not own, operate or manage; a \$1 billion

program of incentive payments for energy conservation; the cost of power purchases that were entered into and then cancelled; and the commitment of large investments and changes to the operations of the hydro projects to maintain a commercial fishery while trying to protect certain Endangered Species Act-listed salmon stocks. These federal policy choices have increased the costs borne by hydro operations while simultaneously decreasing the quantity and quality of power generated at the projects.

While Bonneville's costs have escalated, federal policies to promote a competitive electric market and technological innovations have driven down the price of electricity. Power prices have decreased throughout the West due to improving generating technology, low gas prices, increased transmission capacity between regions, better utilization of existing generating capacity, the development of truly competitive markets for power, and, to some degree, a slow down in the California economy. As a result of these cost and price trends, the market value of Bonneville's power has now dropped below the costs that Bonneville has been asked to bear.

Bonneville has lost the tremendous price advantage that it enjoyed for years just as competitive forces were in the process of transforming energy markets. Moreover, Bonneville's customers have choices in this competitive market and they are electing to diversify their purchases. As a result, Bonneville is in danger of failing to meet its financial commitments unless it can control its costs or Bonneville's obligations become limited to its revenue generating capability. Unfortunately, many of Bonneville's financial commitments continue to be driven by non-market political considerations.

Of course, Bonneville is only part of the larger energy infrastructure in the Pacific Northwest. Although some of the challenges faced by Bonneville are unique, the force of competition is affecting all energy market participants. Bonneville is simply feeling the effects earlier because it operates only in the wholesale power markets that are being transformed by competition first.

The Regional Review.

In the Pacific Northwest, we are now engaged in a broad-based "Comprehensive Review of the Northwest Energy System" to develop a region-wide response to these developments. This Review was initiated by the governors of the States of Idaho, Montana, Oregon and Washington. States, utilities, the DSIs, consumers, regulators and various interest groups are participating actively and intensively in this process. During the Review process, several preliminary proposals have been advanced by various participants, often without clearly identifying the problem the proposed solution is designed to address.

We believe that a key part of the problem and thus a necessary element of any solution is for Bonneville to gain control of its costs so that the costs can be recovered by the sale of electricity in a competitive market. Another element of the problem is how the overall energy system in the Northwest might be restructured to accommodate and promote a competitive market. Others may define the problem as how to achieve fair competition in a market in which a federal agency currently plays a major role. Still others might define the problem as how to continue to fund programs that cannot survive unaided in a competitive market. All of these issues are being explored in depth, but the Regional Review is just beginning.

Only a couple of things are reasonably clear at this stage of the Regional Review. First, nobody yet has a proposal that addresses all of the relevant questions. Nobody really knows how their favorite solution to what they see as the most compelling problem will affect all of the other legitimate interests in the Region. Second, the attention of the Region has become focused on the myriad of issues that affect our rapidly changing energy markets. Many people are beginning to realize that the issues are more complex than they initially appeared.

Conclusion.

Given the dedicated effort of the many involved people in the Northwest and a reasonable but short amount of time, we can expect proposals that are far more robust than the trial balloons floated to stimulate thinking by various parties to date. The process is working. Congress should do nothing now to prejudge or foreclose alternatives. Instead, we ask that you wait for guidance from the deliberations of the Regional Review. We appreciate the opportunity you have provided to address these important issues.

DIRECT SERVICE INDUSTRIES, INC. MEMBERS

Alumax Inc. (Ferndale, WA)
Aluminum Company of America (Wenatchee, WA & Addy, WA)
Columbia Aluminum Corporation (Goldendale, WA)
Columbia Falls Aluminum Company (Columbia Falls, MT)
Georgia-Pacific Corporation (Bellingham, WA)
Kaiser Aluminum & Chemical Corporation (Spokane, WA; Tacoma, WA; & Mead, WA)
Northwest Aluminum Company (The Dalles, OR)
Reynolds Metals Company (Longview, WA & Troutdale, OR)
Vanalco, Inc. (Vancouver, WA)

Ravalli County Electric Co-op

NE 1051 Eastside Highway
P.O. Box 190
Corvallis, MT 59828-0190

June 12, 1996

Richard J. Brown, General Manager

Honorable John T. Doolittle
U.S. House of Representatives
Committee on Resources
Washington, DC 20515

Re: Response to Questions for Congressman Cooley regarding May 21, 1996 Subcommittee Hearing

Water and Power Subcommittee Questions

Do you support the separation of BPA's transmission and power marketing functions?

Yes, BPA should be required to separate its power and marketing functions along the lines mandated for investor-owned utilities in FERC's recent Order 888.

If so, how should this be accomplished?

There has been considerable discussion in the region about whether the necessary separation should be done administratively or whether it is more appropriate to use legislation to establish two separate federal agencies, one to handle generation and one to handle transmission. The regional review is still studying this issue. However, it is important to note that establishing two separate agencies (both of which would probably still be part of the Department of Energy) does not eliminate the possibility of the federal transmission business advantaging the federal generation business, and safeguards will still be required to make sure that that does not happen.

Should BPA continue to be responsible to meet its customers load growth?

BPA should no longer have an overall responsibility to meet its customer's load growth. However, there may be situations where customers, individually, or as a group, wish to contract with BPA to meet their load growth. This option should be available. Under these circumstances that customer, or group of customers, would bear the costs and risks of that service. The costs of meeting load growth should not be borne by those customers which do not contract for this service.

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Honorable John T. Doolittle
Page 2

Richard J. Brown, General Manager

I understand that BPA and its customers are negotiating "load commitments", and agreed upon levels of power that customers will acquire from BPA. How are these discussions going?

BPA has 128 publicly-owned customers. Of those, 53 have signed agreements to take power over the 1997 through 2001 period at the rate stated in the 1996 final rate proposal. In addition, 10 cooperatives, working through the Pacific Northwest Generating Cooperative, have agreed in principle to a power sales agreement for this period. Progress is also being made with regard to BPA's larger public power customers. Key issues that separate BPA and its customers in these discussions include (1) customers' desire to take load off of the agency given that, at least in the short term, the market price of power is lower than BPA's, and BPA's desire to keep as much load as possible on the agency while at the same time affording some flexibility to take load off of the agency, and (2) BPA's concern that customers may voluntarily allow their own customers to allow retail wheeling in their own service territories with a consequent loss of load for the agency.

There is a lot of talk about Independent System Operators (ISOs). Do you believe that is an appropriate tool for the Northwest?

It may well be appropriate to establish an ISO in the Northwest. However, it is still unclear what responsibilities should be given to an ISO. There is considerable concern that the Northwest should not establish an ISO that would be a new poorly-controlled organization that will operate to protect its own interests, rather than work to benefit the region as a whole.

BPA has proposed the formation of an "energy services" business line. Do you believe this is appropriate?

Public power has supported BPA's development of an energy services business line with important caveats. The most important is that those who use the energy services should pay for them and BPA's existing customers should be protected from incurring any additional costs due to a "failure" of this energy services business line. It is also important that BPA's energy service business not offer products and services which compete with services already available from the market. However, BPA has developed a lot of expertise during the last 15 years in the energy services area and it makes sense for this expertise to be available to willing buyers. We have heard a lot of conceptual ideas about the energy service business. It will be easier to decide the specifics of our support or opposition to the energy services business when we understand it better.

I understand that BPA and its customers are negotiating "load commitments," and agreed upon level of power that customers will acquire from BPA. How are these discussions going?

I believe that BPA is making an attempt to work with its customers on some level of flexibility as to load requirement without jeopardizing their current financial situation. As one might expect, there are some customers satisfied with the progress and others that are frustrated with the

Honorable John T. Doolittle
Page 3

Richard J. Brown, General Manager

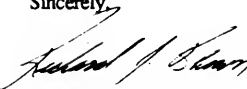
process. From my perspective, BPA is one of the very few power suppliers that is reducing its Base Load Generation Costs for its members. I don't believe that is happening in the IOU camp. The current surplus is marginal power with unallocated costs associated with it. The point is that it is not an apples to apples comparison.

There is considerable talk about "stranded investment" and how to recover it. What is your recommendation for BPA?

BPA should focus on getting its costs down and becoming competitive in the market. BPA's own study says that BPA has no stranded investment if BPA can control its costs. If BPA is allowed to recover any "stranded investment", that merely reduces the market pressure on BPA and increases the time required for BPA to make the necessary adjustments required to meet the market.

This concludes my response to Congressman Cooley's request.

Sincerely,



Richard J. Brown
General Manager

PORTLAND GENERAL ELECTRIC COMPANY

ALVIN ALEXANDERSON
SENIOR VICE PRESIDENT
GENERAL COUNSEL AND SECRETARY

ONE WORLD TRADE CENTER
121 S W SALMON STREET
PORTLAND OREGON 97204
(503) 464-7401

June 3, 1996

The Honorable John T. Doolittle
Chairman, Subcommittee on Water and
Power Resources
Committee on Resources
1337 Longworth House Office Building
Washington, D.C. 20515

RE: Question for the Record -- BPA Transmission Rates

Dear Chairman Doolittle:

I want to thank you again for convening the April 21, 1996 hearing on the Regional Review of the Bonneville Power Administration. I very much appreciated the opportunity to participate in those hearings.

During that session Congressman Cooley asked what the transmission rate increases were that BPA was passing on to regional customers. For a variety of reasons I wanted to submit a response for the record which I am enclosing.

BPA has proposed to redesign its so-called IR (Integration of Resources) transmission rate structure from a demand and energy basis to a demand only basis. When converted to a demand only basis, the IR rate from BPA's last contested rate proceeding, which was in effect during the fiscal 1994-95 period, was \$.848 per kW per month. The IR rate for fiscal 1996 was based on a 4 percent "surcharge settlement," and was \$.8819 per kW per month converted to a demand only basis. A settlement of the transmission portion of BPA's current rate proceeding includes a rate of approximately \$1.001 per kW per month. This rate is to apply to the fiscal 1997-2001 period, and represents an increase of 18.04 percent over the rate determined in BPA's last contested rate proceeding (\$.848 converted to a demand only basis). Congressman Cooley is correct that these transmission rate increases are in addition to the Exchange benefit decreases which will adversely affect the residential and small farm customers of exchanging utilities.

I hope this answers the Subcommittee's specific question about transmission rate increases. As I indicated at the hearing, because these are significant rate increases it is imperative that BPA uses these revenues to support operation and maintenance of the existing transmission system and not to cross subsidize power customers. More importantly, there is no agreement of the region with regard to "growth" at Bonneville which would include using these rate increases to expand its existing transmission system.

The Honorable John T. Doolittle
Page 2

Again, your time, attention and leadership on these issues are appreciated.

Sincerely,

A handwritten signature in black ink, appearing to read "John T. Doolittle", written in a cursive style.

cc: The Honorable Wes Cooley
1609 Longworth House Office Building
Washington, D.C. 20515-3702



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